

This amendment contains a corrected 1997 Form 10K in its entirety. The original filing included typographical errors that occurred during the EDGARization process. The corrections for these errors are as follows:

Item 6. page 13 - 1997 Total operating revenues should be \$5,053.6 million

Item 6. page 13 - 1995 Earnings (Loss) per common share before extraordinary item and accounting change should be \$(8.57) Item 7. page 20 - Low and close market price for the quarter ended March 31, 1997, should be \$57 5/8 and \$57 7/8, respectively Item 8. page 41 - 1997 Other taxes should be \$222.5 million Item 8. page 42 - 1997 Regulatory Assets should be \$400.9 million

Commission File No. 1-1098

As filed with the United States Securities and Exchange Commission on March 19, 1998.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended DECEMBER 31, 1997

or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

COLUMBIA ENERGY GROUP
(Exact name of registrant as specified in its charter)

Delaware
(State or other Jurisdiction of incorporation or organization)

13-1594808
(I.R.S. Employer (Identification No.))

12355 Sunrise Valley Drive, Suite 300, Reston, VA
(Address of principal executive offices)

20191-3420
(Zip Code)

Registrant's telephone number, including area code (703) 295-0300

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock, \$10 Par Value Exchange	New York Stock

Debentures
6.39% Series A due November 28,
2000
6.61% Series B due November 28,
2002
6.80% Series C due November 28,
2005
7.05% Series D due November 28,
2007
7.32% Series E due November 28,
2010
7.42% Series F due November 28,
2015
7.62% Series G due November 28,
2025

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes or No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the outstanding common shares of the Registrant held by nonaffiliates as of January 31, 1998, was \$4,195,400,000. For purposes of the foregoing calculation, all directors and/or officers have been deemed to be affiliates, but the registrant disclaims that any of such directors and/or officers is an affiliate.

The number of shares outstanding of each class of common stock as of January 31, 1998, was: Common Stock \$10 Par Value: 55,507,078 shares outstanding.

Documents Incorporated by Reference

Part III of this report incorporates by reference the Registrant's Proxy Statement relating to the 1998 Annual Meeting of Stockholders.

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PART 1

ITEM 1. BUSINESS

General

Columbia Energy Group (Columbia), formerly The Columbia Gas System, Inc. and its subsidiaries comprise one of the nation's largest integrated natural gas systems engaged in natural gas transmission, natural gas distribution, and exploration for and production of natural gas and oil. Columbia is also engaged in related energy businesses including the marketing of natural gas and electricity, the generation of electricity, primarily fueled by natural gas, and the distribution of propane. Columbia, organized under the laws of the State of Delaware on September 30, 1926, is a registered holding company under the Public Utility Holding Company Act of 1935, as amended, (1935 Act) and derives substantially all its revenues and earnings from the operating results of its 17 direct subsidiaries. Columbia owns all of the securities of these direct subsidiaries except for approximately 8 percent of the stock in Columbia LNG Corporation. Columbia and its subsidiaries are sometimes collectively referred to herein as the Columbia Group.

On January 20, 1998, Columbia announced that its name had been changed from The Columbia Gas System, Inc. to Columbia Energy Group to better reflect its expanded participation in the energy marketplace.

Columbia and its principal pipeline subsidiary, Columbia Gas Transmission Corporation (Columbia Transmission), emerged from bankruptcy on November 28, 1995, after filing separate petitions for protection under Chapter 11 of the Federal Bankruptcy Code (Bankruptcy Code) on July 31, 1991. During the bankruptcy period, both Columbia and Columbia Transmission were debtors-in-possession under the Bankruptcy Code and continued to operate their businesses in the normal course subject to the jurisdiction of the United States Bankruptcy Court for the District of Delaware.

Transmission and Storage Operations

Columbia's two interstate pipeline subsidiaries, Columbia Transmission and Columbia Gulf Transmission Company (Columbia Gulf), operate a 18,500-mile pipeline network extending from offshore in the Gulf of Mexico to Lake Erie, New York and the eastern seaboard. In addition, Columbia Transmission operates one of the nation's largest underground natural gas storage systems. The transmission subsidiaries serve customers in fifteen northeastern, midatlantic, midwestern, and southern states and the District of Columbia. Columbia Gulf's pipeline system extends from offshore Louisiana to West Virginia and transports a major portion of the gas delivered by Columbia Transmission. It also transports gas for third parties within the production areas of the Gulf Coast.

Columbia Transmission provides an array of competitively priced natural gas transportation and storage services for local distribution companies and industrial and commercial customers who contract directly with producers or marketers for their gas supplies.

Columbia LNG Corporation is a partner with Potomac Electric Power Company in the Cove Point LNG Limited Partnership (Partnership). The Partnership owns one of the largest natural gas peaking and storage facilities in the United States located in Cove Point, Maryland. The facility has the capacity to liquefy natural gas at a rate of 15,000 Mcf of natural gas per day. The facility enables liquefied natural gas to be stored until needed for the winter peak-day requirements of utilities and other large gas users.

Distribution Operations

Columbia's five distribution subsidiaries provide natural gas service to approximately 2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. Approximately 31,700 miles of distribution pipelines serve these major markets. The distribution subsidiaries have initiated transportation programs that allow residential and small commercial customers the opportunity to choose their natural gas suppliers and to use the distribution subsidiaries for transportation service. This ability to choose a supplier was previously limited to larger commercial and industrial customers. See "Competition and Business Strategies" on page 4 for additional information.

Exploration and Production Operations

Columbia's exploration and production subsidiary, Columbia Natural Resources, Inc. (Columbia Resources), explores for, develops, gathers and produces natural gas and oil in Appalachia and Canada. As of December 31, 1997, Columbia Resources held interest in approximately 2.1 million net acres of gas and oil leases and had proved gas reserves of nearly 811 billion cubic feet of natural gas equivalent. On August 7, 1997, Columbia Resources acquired Alamco, Inc. (Alamco), an Appalachian gas and oil exploration and development company and during the

ITEM 1. BUSINESS (Continued)

first quarter of 1998, Columbia Resources purchased 26 producing wells and approximately 5,000 undeveloped acres in Ontario, Canada. For additional information, see Item 7, page 32.

Marketing, Propane and Power Generation Operations

Columbia Energy Services Corporation (Columbia Energy Services), and its subsidiaries conduct Columbia's nonregulated natural gas and power marketing operations and provide an array of energy supply and fuel management services to distribution companies, independent power producers and other large end users both on and off Columbia's transmission and distribution pipeline systems. Columbia Energy Services is also actively pursuing opportunities to provide natural gas supplies to retail customers as a result of the unbundling of services that is occurring at the local distribution level. Columbia Energy Services, through its subsidiary, Columbia Service Partners, Inc. (Columbia Service), provides a variety of nonregulated services to both homeowners and businesses. In the second quarter of 1997, Columbia Energy Services acquired PennUnion Energy Services L.L.C. (PennUnion), an energy-marketing affiliate of the Pennzoil Company. As a result of this acquisition, Columbia Energy Services markets a substantial portion of Pennzoil Company's North American natural gas production. During 1997, Columbia Energy Services began purchasing and marketing Kerr-McGee Corporation's (Kerr-McGee) offshore natural gas production. Columbia Energy Services will manage all of Kerr-McGee's U.S. natural gas marketing activities including scheduling, nominating and balancing pipeline transportation as well as providing financial risk management services. In October 1997, Columbia Energy Services and Honeywell Inc. formed an alliance to sell a targeted set of products and services in a seven-state region for use in homes, commercial buildings and industrial facilities. See Item 7, page 35, for additional information.

During 1997, Commonwealth Propane, Inc. merged into Columbia Propane Corporation (Columbia Propane), both wholly-owned subsidiaries of Columbia, in order to increase administrative and operating efficiencies. Columbia Propane sells propane at wholesale and retail to nearly 97,000 customers in parts of ten states and the District of Columbia. During the first quarter of 1997, the assets of Supertane Gas Corporation were purchased, bringing total propane sales for 1997 to 70.9 million gallons. In the first quarter of 1998, Columbia Propane purchased certain assets of Central Jersey Propane, Inc. (Ace Gas) located in New Jersey. Ace Gas sells approximately 2.2 million gallons of propane annually to 3,600 customers. For additional information, see Item 7, page 36.

Columbia Electric Corporation (Columbia Electric), formally TriStar Ventures Corp., a wholly owned subsidiary of Columbia, holds interests in three cogeneration projects that produce both electricity and useful thermal energy. These projects are fueled principally by natural gas and have a total capacity of nearly 250 megawatts. In the first quarter of 1998, Columbia Electric entered into a joint ownership agreement to develop three natural gas-fired electricity generating plants by 2001. In total, the three plants will provide approximately 1000 megawatts of electricity using approximately 160 Mmcf per day of natural gas. Total development costs are estimated at \$600 million to \$700 million.

Columbia Network Services Corporation (Columbia Network), a wholly owned subsidiary of Columbia, and through its subsidiaries provides telecommunications and information services and assists personal communications services and other microwave radio service licensees in locating and constructing antenna facilities. In October 1996, Columbia Network entered into an agreement with The SABRE Group, Inc. (SABRE) to jointly develop an electronic information system which will operate under the name of The SABRE Energy Network. The SABRE Energy Network will serve as a central access point for scheduling natural gas transportation.

For additional discussion of the Columbia Group's business segments, including financial information for the last three fiscal years, see Item 7, pages 21 through 38 and Note 16 on pages 62 through 64 of Item 8.

Competition and Business Strategies

The energy markets continue to undergo tremendous change. Over the past ten years open access to natural gas supplies over interstate pipelines has developed and the commodity price of gas has been deregulated. During this period, distribution companies, larger industrial and commercial customers and marketers began to purchase gas directly from producers and marketers and an open competitive market for gas supplies emerged. This separation or "unbundling" of the transportation and other services offered by pipelines allows customers to select the service they want independent from the purchase of the commodity. This unbundling of services and deregulation of the commodity price is occurring at the distribution company level as well. Columbia's distribution subsidiaries are involved in programs that provide residential customers the opportunity to purchase their natural gas requirements from third parties and use the distribution subsidiaries for transportation services. It is likely, that over time, distribution companies will have a very limited merchant function. At the same time that the natural gas markets

ITEM 1. BUSINESS (Continued)

are evolving, the markets for competing energy sources are also changing. During 1997, open access to interstate transmission of electricity was approved by the Federal Energy Regulatory Commission (FERC) and will result in increased competition in the market for electricity. The energy market of the future may be characterized by open competition not only in the market for supply of a particular commodity but also open competition between interchangeable fuels. For additional information regarding competition, see Item 7.

In order to capitalize on the opportunities presented by this increasingly competitive environment, Columbia's management is developing a more responsive, entrepreneurial, customer-focused organization that will utilize Columbia's core asset strengths, its expansive customer base and its knowledge and experience in the energy markets to remake Columbia into a "total energy company," a leading provider of energy and energy-related services. To achieve this goal, Columbia has developed the following strategic initiatives:

Develop Nonregulated Energy Business. Columbia has established a strategic goal to increase its investment in non-rate regulated businesses to a level that would provide for such operations to contribute approximately 30% of Columbia's consolidated operating income by 2002.

Columbia's extensive presence in the northeast, mid-Atlantic and midwestern regions of the country provides significant opportunities to offer customers a wide variety of non-rate regulated energy-related products and services. Through Columbia Energy Services, Columbia Service and Columbia Network, Columbia expects to offer nonregulated energy-related products and services to all energy consumers within its wholesale and retail market area. Columbia's Appalachian exploration and production subsidiary, Columbia Resources, acquired Alamco, Inc. in the third quarter of 1997, making it one of the largest-volume natural gas and oil producers in the Appalachian Basin. This acquisition provides contiguous assets that give Columbia Resources a major presence in north-central West Virginia, southern Kentucky and northern Tennessee. In late 1997, Columbia Resources entered into an agreement to purchase producing assets and undeveloped acreage in Ontario, Canada with consummation of the transaction expected in the first half of 1998.

Capitalize on Core Asset Strengths. Columbia continues to focus on and expand its core businesses. Consistent with this focus, Columbia has undertaken an expansion of Columbia Transmission's storage and transportation systems that are being phased in over a three-year period that began in 1997. Once completed, the expansion will add approximately 500,000 Mcf per day of firm storage to 23 customers. Columbia Transmission is also participating in the proposed 442-mile Millennium Pipeline Project that has been submitted to the FERC for approval. As proposed, the project will transport approximately 700,000 Mcf per day of natural gas from the Lake Erie region to eastern markets. For additional information regarding the Millennium project see Item 7, page 21.

Exploit Synergies. Unlike the structure of many of its peers, Columbia's distribution, storage, and exploration and production operations form a grid connected by Columbia Transmission. Columbia is embarking on a system-wide strategy that will provide customers with a variety of unbundled gas supply services: gathering; processing; transportation; storage; distribution and, other energy delivery services. Columbia is also working on initiatives with regulators designed to promote rate structures that will reward Columbia's transmission and distribution subsidiaries for enhanced productivity and efficiency.

Streamline Organizational Structure. In 1996, Columbia's subsidiaries completed a top-down review of their management structure and operations in an effort to streamline their organizational structure and improve customer service. The studies examined all aspects of Columbia's operations including the configuration and location of its management. These studies resulted in recommendations that were being implemented during 1997. The benefits of this reengineering initiative are now being realized through cost savings and improved efficiencies.

Implement CVA. An integral part of Columbia's financial strategy is the recent application of a value added approach, called Columbia Value Added (CVA), to all of its businesses. CVA is a financial process as well as a financial measure that determines whether the anticipated return on a business activity or project exceeds its risk adjusted capital cost. All discretionary capital expenditures will be subject to the CVA process. CVA is also being employed in Columbia's strategic planning process and in the setting of management compensation levels.

Maintain Financial Flexibility. As a result of its recapitalization in late 1995, Columbia achieved one of the lowest average costs of debt in the natural gas industry (7.03%) with an average maturity of 14 years and, as of year-end 1997, had reduced its ratio of long-term debt to total capitalization to 53%. In 1997, Fitch Investors Service (Fitch), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Group (S&P) upgraded Columbia's long-term debt rating to BBB+, Baa1 and BBB+, respectively. One of management's objectives is to improve the quality of its credit rating over time and to better position Columbia to take advantage of business

ITEM 1. BUSINESS (Continued)

opportunities as they arise. To further enhance its financial flexibility, Columbia recently implemented unsecured revolving credit facilities totaling \$1.35 billion, consisting of a \$900 million five-year revolving credit facility and a \$450 million 364-day revolving credit facility with a one-year term loan option. The \$900 million five-year facility will provide for the issuance of up to \$300 million of letters of credit. The credit facilities also support Columbia's commercial paper program.

The foregoing discussion includes statements regarding market risk sensitive instruments and contains "forward-looking statements," within the meaning of

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors and prospective investors should understand that several factors govern whether any forward-looking statement contained herein will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include statements concerning Columbia's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and including any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, Columbia may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of Columbia, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially. Realization of Columbia's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, competition, weather, regulatory and legislative changes as well as changes in general economic and capital and commodity market conditions many of which are beyond the control of Columbia. In addition, the relative contributions to profitability by segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time due to changes in the marketplace.

With respect to any references made to ratings assigned to Columbia's debt securities, there can be no assurance that Columbia will be successful at maintaining its credit quality or that such credit ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by these rating agencies. Credit ratings reflect only the views of the rating agencies, whose methodology and the significance of their ratings may be obtained from them.

Other Relevant Business Information

Columbia Group's customer base is broadly diversified, with no single customer accounting for a significant portion of revenues.

As of January 31, 1998, the Columbia Group had 8,529 full-time employees of which 2,443 are subject to collective bargaining agreements.

Columbia's subsidiaries are subject to extensive federal, state and local laws and regulations relating to environmental matters. These laws and regulations, which are constantly changing, require expenditures for corrective action at various operating facilities, waste disposal sites and former gas manufacturing sites for conditions resulting from past practices that have subsequently become subject to environmental regulation. Information relating to environmental matters is detailed in Item 7, pages 22 and 28, and in Item 8, Note 13 on page 60.

For a listing of the direct subsidiaries of Columbia and their lines of business refer to Exhibit 21.

ITEM 2. PROPERTIES

Information relating to properties of subsidiary companies is detailed below and on page 8 and page 47 of Item 8 under Note 1F. Assets under lien and other guarantees are described on page 60 in Note 13C of Item 8.

Neither Columbia nor any subsidiary knows of material defects in the title to any real properties of the subsidiaries of Columbia or any material adverse claim of any right, title, or interest therein, pending or contemplated. Substantially all of Columbia Transmission's property has been pledged to Columbia as security for First Mortgage Bonds issued by Columbia Transmission to Columbia.

EXPLORATION AND DEVELOPMENT DATA

Acreage - at December 31, 1997

	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
Appalachian	1,447,656	1,406,597	813,519	
664,139	=====	=====	=====	
=====				

Net Wells Completed - 12 Months Ended December 31,

	Exploratory		Development		Total
	Productive	Dry	Productive	Dry	
Dry					
1997	0	0	84	18	84
18					
1996	0	0	19	8	19 (a)
8					
1995	4	4	64	21	68 (a)
25					

Productive and Drilling Wells - At December 31, 1997

	Production Wells				Wells Drilling
	Gross (b)		Net		
	Gas	Oil	Gas	Oil	Gross
Net					
7,343		138	6,728	84	27
17					

(a) Includes 1 net horizontal well in 1996 and 18 net horizontal wells in 1995.

(b) Includes 778 multiple completion gas wells, all of which are included as single wells in the table. Also includes 1 gross productive horizontal well.

ITEM 2. PROPERTIES (continued)

GAS PROPERTIES OF SUBSIDIARIES - AS OF DECEMBER 31, 1997

Subsidiaries	State	Underground Storage		Miles of Pipeline			Compressor Stations	
		Acreage	Wells	Gathering and Storage	Transmission	Distribution	Number	Installed Capacity (hp)
Columbia Gas of Kentucky, Inc.	KY	--	--	--	--	2,374	--	--
Columbia Gas of Maryland, Inc.	MD	--	--	--	--	595	--	--
Columbia Gas of Ohio, Inc.	OH	--	--	--	--	17,914	--	--
Columbia Gas of Pennsylvania, Inc.	PA	3,400	8	4	--	6,908	1	800
Columbia Gas of Virginia, Inc.	VA	--	--	--	--	3,873	--	--
Columbia Gas Transmission Corporation	DE	--	--	--	3	--	--	--
	KY	--	--	32	745	--	7	18,270
	MD	945	--	22	227	--	1	12,000
	NJ	--	--	--	69	--	--	--
	NY	26,084	143	58	487	--	4	6,040
	NC	--	--	--	1	--	1	1,200
	OH	486,892	2,467	992	4,029	--	27	100,312
	PA	63,351	245	578	2,062	--	27	68,913
	VA	--	--	130	1,123	--	11	79,480
	WV	293,711	817	1,236	2,507	--	46	304,736
Columbia Gulf Transmission Company	AR	--	--	--	8	--	--	--
	KY	--	--	--	716	--	2	70,290
	LA	--	--	--	2,041	--	5	192,500
	MS	--	--	--	659	--	3	121,382
	TN	--	--	--	556	--	2	83,000
	TX	--	--	--	200	--	--	--
	WY	--	--	--	10	--	--	--
Columbia Natural Resources, Inc.	KY	--	--	1,872	--	--	8	125
	MI	--	--	6	--	--	--	--
	NY	--	--	2	--	--	--	--
	OH	--	--	112	--	--	--	--
	PA	--	--	37	--	--	--	--
	VA	--	--	393	--	--	--	--
	WV	--	--	2,529	--	--	--	--
		874,383	3,680	8,003	15,443	31,664	145	1,059,048

NOTE: This table excludes minor gas properties and all construction work in progress. The titles to the real properties of the subsidiaries of Columbia have not been examined for the purpose of this document. Neither Columbia nor any subsidiary know of material defects in the title to any of the real properties of the subsidiaries of Columbia or of any material adverse claim of any right, title, or interest therein, pending or contemplated. Substantially all of Columbia Transmission's property has been, pledged to Columbia as security for First Mortgage Bonds issued by Columbia Transmission to Columbia.

ITEM 3. LEGAL PROCEEDINGS

I. Purchase and Production Matters

A. Pending Producer Matters

1. Estimation Proceedings. Claims by certain producers for damages resulting from the rejection of gas purchase contracts remain unresolved as discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Report.

2. New Ulm and Fox v. Mobil Oil Corp., Columbia Gas Transmission Corp. and Columbia Gulf Transmission Co., C.A. No. 88-V-655 (155th Judicial Dist. Ct. of Austin County, TX). New Ulm alleged Columbia Transmission incorrectly paid for gas on the basis of Columbia Transmission's market-out price rather than the higher price New Ulm claimed was available to it under gas contracts.

After the Bankruptcy Court entered an order modifying the automatic stay provided under the Federal Bankruptcy Code, jury trial began in Texas state court on June 22, 1992, and concluded with a verdict against Columbia Transmission on July 2, 1992, in the amount of approximately \$5.6 million, including interest. Thereafter, Columbia Transmission appealed to the Court of Appeals for the First District of Texas.

On July 28, 1994, the Court of Appeals found that evidence proffered by Columbia Transmission was improperly excluded from trial. Consequently, the Court of Appeals reversed the trial court's judgment and remanded the matter to the trial court for proceedings not inconsistent with the Court of Appeals' opinion. On January 11, 1996, the Texas Supreme Court granted both Columbia Transmission's and New Ulm's application for writ of error. On October 18, 1996, the Texas Supreme Court reversed the judgment of the Court of Appeals on New Ulm's contract interpretation claim and rendered judgment in favor of Columbia Transmission on that issue. The Texas Supreme Court also affirmed, in part, the appellate court's judgment by remanding New Ulm's fraud claim to the trial court for further proceedings. The Texas Supreme Court denied New Ulm's request for rehearing on December 13, 1996, on the contract interpretation claim, and on February 3, 1997, issued the mandate of its judgment to the Texas trial court.

Consistent with the order of the Texas Supreme Court of October 18, 1996, a new trial was held regarding New Ulm's fraud claim and on July 31, 1997, the jury returned a verdict that awarded plaintiff \$512,070 compensatory damages and \$2,560,350 punitive damages.

The Court entered judgment on the verdict and stipulated contract damages in the amount of approximately \$15,800 for a total judgment amount of nearly \$3.1 million plus interest. On September 26, 1997, Columbia Transmission filed a motion for new trial, and on October 7, 1997, filed a motion for remittitur to reduce the punitive damages in the judgment. On October 10, 1997, Columbia Transmission perfected an appeal. On October 29, 1997, the Court denied Columbia Transmission's motion for remittitur. The Court ordered a mediation process to be conducted in December 1997. As a result of the mediation, Columbia Transmission and New Ulm settled the litigation and New Ulm's claims for a proposed allowed amount of \$2.25 million in December 1997, subject to Columbia Transmission's Plan of Reorganization. The Bankruptcy Court approved the settlement on January 26, 1998.

3. New Bremen Corp. v. Columbia Gas Transmission Corp. and Columbia Gulf Transmission Co., No. 88V-631 (Dist. Ct. Austin County, TX). On November 16, 1988, New Bremen filed a complaint alleging it is entitled to a higher price than the market-out price Columbia Transmission paid for past periods under the same gas purchase contract price provision involved in the New Ulm case discussed above. On January 10, 1989, Columbia Transmission removed the case to the United States District Court for the Southern District of Texas (No. H-89-0072).

By order entered December 7, 1992, the Bankruptcy Court modified the automatic stay provided under the Federal Bankruptcy Code to allow the U.S. District Court to decide the pending motions for summary judgment regarding a contract interpretation issue raised by both parties. Other issues raised by New Bremen's claim and Columbia Transmission's response thereto were referred to the claims mediator. On August 11, 1995, an order was entered granting Columbia Transmission's motion for partial summary judgment and denying New Bremen's motion for partial summary judgment on the issue of contract interpretation. On August 29, 1995, the U.S. District Court denied New Bremen's motion to withdraw and set aside its August 11, 1995 order, but stated that it would withdraw and vacate its order if the Bankruptcy Court determined that it was in violation of the automatic stay. On November 2, 1995, the Bankruptcy Court denied New Bremen's motion for an order that the August 11, 1995 order

ITEM 3. LEGAL PROCEEDINGS (Continued)

was a violation of the automatic stay. The U.S. District Court, on March 12, 1996, acting upon a motion filed by Columbia Transmission, entered an order finding that there was no just reason to delay entry of judgment and therefore entered final judgment of its August 11, 1995 order which granted Columbia Transmission's motion for partial summary judgment.

New Bremen appealed the U.S. District Court's grant of partial summary judgment to the U.S. Court of Appeals for the Fifth Circuit. On February 10, 1997, the Fifth Circuit denied New Bremen's appeal and upheld the U. S. District Court's grant of partial summary judgment in favor of Columbia Transmission on the contract pricing issue. On February 3, 1997, the claims mediator issued a recommendation as to issues not resolved by the decisions of the U. S. District Court and the Fifth Circuit Court of Appeals. On February 25, 1997, Columbia Transmission filed a motion with the Bankruptcy Court seeking to have New Bremen's claim allowed by the Bankruptcy Court in accordance with the Fifth Circuit decision and the claims mediator's report and recommendations issued in the claims estimation proceedings (resolving issues not covered by the Fifth Circuit decision). Just prior to the hearing scheduled for April, 1997, the Court advised the parties that it would review all submissions in connection with the motion and advise the parties as to whether oral argument would be required at a later date. To date, the Court has taken no further action regarding Columbia Transmission's motion.

II. Regulatory Matters

A. Matters that have been resolved

1. Transportation Costs Recovery Adjustment (TCRA): Columbia Gas Transmission Corp., Docket No. RP95-196 and UGI Utilities, Inc. v. Columbia Gulf Transmission Co. and Columbia Gas Transmission Corp., Docket No. RP95-392. As reported in the Quarterly Report on Form 10-Q for the second quarter of 1997, Columbia Transmission and the parties in this case reached a settlement, which the FERC approved on June 25, 1997. No requests for rehearing were filed, thereby concluding the proceeding. This matter is now concluded.
2. Direct Billing of Past Period Production and Production-Related Costs: Columbia Gas Transmission Corp. v. FERC, C.A. No. 94-1727 (U.S. Ct. of App., D.C. Circuit). As reported in the Quarterly Report on Form 10-Q for the third quarter of 1997, Columbia Transmission and Transcontinental Gas Pipeline Corporation ("Transco") reached an agreement to settle a FERC Order No. 94 matter for a total payment to Transco of \$5.4 million. On September 9, 1997, the Bankruptcy Court entered an order approving the settlement agreement. Columbia Transmission has made the \$5.4 million refund to Transco as required by the settlement. Columbia Transmission and its Virginia customers have subsequently agreed to a plan whereby Columbia Transmission and the customers shared in the refund payment to Transco. The agreement resulted in billings to these customers of approximately \$1.9 million. This matter is now concluded.

III. Environmental

1. Columbia Gas Transmission Corp. v. Aetna Casualty & Surety Co., et al., C.A. No. 94-C-454 (Kanawha (W.Va.) Cir. Ct. March 14, 1994). Columbia Transmission filed a complaint in West Virginia state court seeking coverage from various insurers under various insurance policies for environmental cleanup costs. These costs are discussed more fully in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Report. All insurers have responded to the complaint denying such claims. The case is currently stayed under the evergreen provision of the agreed scheduling order entered by the state court on November 29, 1995, in order to allow informal discussions among the parties to the litigation. The parties have also entered into an agreed order concerning a special discovery master which was entered by the court. Columbia Transmission continues to pursue recovery of environmental expenditures from its insurance carriers, however, at this time, management is unable to determine the total amount or final disposition of any recovery.
2. Columbia Gulf Transmission Co. v. Aetna Casualty & Surety Co., et al., C.A. No. 95-C-177 (Kanawha (W.Va.) Cir. Ct. January 19, 1995). Columbia Gulf filed a complaint in West Virginia state court seeking coverage from various insurers under various insurance policies for environmental cleanup costs. These costs are discussed more fully in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Report. All insurers have responded to the complaint denying such claims. The case is currently stayed under the evergreen provision of the agreed scheduling order entered by the state court on December 1, 1995, in order to allow informal discussions among the parties to the litigation. The parties have also entered into an agreed order concerning a special discovery master which was entered by the court. Columbia Gulf continues to pursue recovery

ITEM 3. LEGAL PROCEEDINGS (Continued)

of environmental expenditures from its insurance carriers, however, at this time, management is unable to determine the total amount or final disposition of any recovery.

IV. Other

A. Matters that have been resolved

1. LG&E Natural Marketing Inc. v. Columbia Gulf Transmission Co. and Columbia Gas Transmission Corp., Case No. 1:96CV02238 (U.S. Dist. Ct. for the District of Columbia) and C.A. No. 96-CA07745 (Sup. Ct. of the District of Columbia). As reported in the Quarterly Report on Form 10-Q for the first quarter of 1997, a settlement was reached in this matter in March 1997.

B. Pending Matters

1. Canada Southern Petroleum Ltd. v. Columbia Gas Development of Canada Ltd. (C.A. No. 9001-03466, Court of Queen's Bench, Alberta, Canada, filed March 7, 1990). The plaintiff asserts, among other things, that the defendant working interest owners, including Columbia Gas Development of Canada Ltd. ("Columbia Canada") and various Amoco affiliates, breached an alleged fiduciary duty to ensure the earliest feasible marketing of gas from the Kotaneelee field (Yukon Territory, Canada). The plaintiff seeks, among other remedies, the return of the defendants' interests in the Kotaneelee field to the plaintiff, a declaration that such interests are held in trust for the plaintiff and an order requiring the defendants to promptly market Kotaneelee gas or assessing damages.

In November 1993, the plaintiff amended its Amended Statement of Claim to include allegations that the balance in the Carried Interest Account (an account for operating costs which are recoverable by working interest owners) which is in excess of the balance as of November 1988 should be reduced to zero. Columbia, on behalf of Columbia Canada, consented to the amendment in consideration of the plaintiff's acknowledgment that some \$63 million was properly charged to the account. However, Columbia and Columbia Canada continue to dispute the claim to the extent that the claim challenges expenditures incurred since November 1988, including expenditures made after Columbia Canada was sold to Anderson Exploration Ltd. ("Anderson") effective December 31, 1991.

A trial commenced in the third quarter of 1996 in the Court of Queen's Bench, and was adjourned while the plaintiff sought to have Amoco's (a co-defendant) counsel removed based upon a conflict of interest. At a hearing on the matter, the court ruled against the plaintiff, and a subsequent appeal by the plaintiff was dismissed. The trial resumed in September 1997. Due to the complex nature of the litigation, Columbia cannot predict the length of the trial. Management continues to believe that its defenses are meritorious, and that the risk of any material liability to Columbia is de minimis.

Pursuant to an Indemnification Agreement regarding the Kotaneelee Litigation entered into when Columbia Canada was sold to Anderson, Columbia agreed to indemnify and hold Anderson harmless for losses due to this litigation arising out of actions occurring prior to December 31, 1991. As a result of the 1997 upgrading of Columbia's long-term debt, an escrow account that provides security for the indemnification obligation and is now funded by a letter of credit was reduced to approximately \$35,835,000 (Cdn).

2. Cathodic Protection. In September 1995, the management of Commonwealth Gas Services, Inc. (now Columbia Gas of Virginia, Inc.) ("Columbia of Virginia") advised the Staff of the Virginia State Corporation Commission that there had been deficiencies in Columbia of Virginia's cathodically protected pipeline distribution system in its Northern Operating Area in Virginia. Following several months of informal investigation, on March 1, 1996, the Commission issued a subpoena for Columbia of Virginia to produce documents related to its cathodic protection program in the Northern Operating Area. Columbia of Virginia complied with the subpoena, and continues to provide monthly reports to the Commission updating the status of remedial work in the Northern Operating Area and annual test station monitoring. Given the early status of this investigation, Columbia is unable to determine at this time the likelihood or magnitude of any penalties that might be assessed.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of Columbia is traded on the New York Stock Exchange under the ticker symbol CG and abbreviated as either ColumEngy or ColumEgy in trading reports. The number of shareholders on December 31, 1997, was approximately 37,698 and the stock closed at \$78.5625, as reflected in the New York Stock Exchange Composite Transactions as reported by The Wall Street Journal. On February 18, 1998, Columbia declared a quarterly dividend of \$0.25 per share for the first quarter of 1998, which will be payable on or about March 16, 1998, to holders of record on March 2, 1998.

See Item 7 on page 20 for additional information regarding Columbia's common stock prices and dividends.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

Columbia Energy Group and Subsidiaries

(\$ in millions, except per share amounts)	1997	1996	1995*	1994*	1993*	1992*
INCOME STATEMENT DATA (\$)						
Total operating revenues	5,053.6	3,354.0	2,635.2	2,747.1	3,313.8	2,859.2
Products purchased	3,138.1	1,481.1	820.6	984.2	1,577.7	1,236.9
Earnings (Loss) before extraordinary item and accounting changes	273.3	221.6	(432.3)	246.2	152.2	90.9
Earnings (Loss) on common stock	273.3	221.6	(360.7)	240.6	152.2	51.2
PER SHARE DATA						
Earnings (Loss) per common share (\$):						
Before extraordinary item and accounting changes	4.93	4.12	(8.57)	4.87	3.01	1.79
Earnings (Loss) per common share	4.93	4.12	(7.15)	4.76	3.01	1.01
Average common shares outstanding (000)	55,405	53,792	50,477	50,563	50,563	50,563
Diluted earnings (loss) per common share (\$):						
Before extraordinary item and accounting changes	4.90	4.11	(8.57)	4.87	3.01	1.79
Diluted earnings (loss) per common share	4.90	4.11	(7.15)	4.76	3.01	1.01
Diluted average common shares (000)	55,734	53,951	50,477	50,563	50,563	50,563
Dividends:						
Per share (\$)	0.90	0.60	-	-	-	-
Payout ratio (%)	18.3	14.6	N/A	N/A	N/A	N/A
BALANCE SHEET DATA (\$)						
Capitalization including debt subject to Chapter 11:						
Common stock equity	1,790.7	1,553.6	1,114.0	1,468.0	1,227.3	1,075.1
Preferred stock	-	-	399.9	-	-	-
Long-term debt	2,003.5	2,003.8	2,004.5	4.3	4.8	5.4
Short-term debt	N/A	N/A	N/A	-	-	-
Current maturities of long-term debt	0.5	0.8	0.5	1.2	1.3	1.4
Debt subject to Chapter 11	-	-	-	2,317.1	2,317.1	2,317.1
Total	3,794.7	3,558.2	3,518.9	3,790.6	3,550.5	3,399.0
Total assets	6,612.3	6,004.6	6,057.0	7,164.9	6,957.9	6,505.9
OTHER FINANCIAL DATA						
Capitalization ratio (%) (including current maturities**):						
Common stock equity	47.2	43.7	31.7	38.7	34.6	31.6
Preferred stock	-	-	11.4	-	-	-
Debt	52.8	56.3	56.9	61.3	65.4	68.4
Capital expenditures (\$)	560.3	314.8	421.8	447.2	361.3	299.7
Net cash from operations (\$)	468.2	477.0	(804.1)	572.8	850.4	765.4
Book value per common share (\$)	32.27	28.11	22.64	29.03	24.27	21.26
Return on average common equity before extraordinary item and accounting changes (%)	16.3	16.6	(33.5)	18.3	13.2	8.7

N/A - Not applicable

Dilutive potential common shares were not included in the 1995 computation of diluted EPS as the effect would be antidilutive.

* Reference is made to Note 2 of Notes to Consolidated Financial Statements. Due to the bankruptcy filings, interest expense of approximately \$230 million, \$210 million, \$204 million and \$86 million was not recorded in 1994, 1993, 1992 and 1991, respectively. Interest expense of \$982.9 million including write-off of unamortized discounts on debentures, was recorded in the fourth quarter of 1995.

**Prior to 1991, Columbia made extensive use of variable rate debt since the associated cost was normally less than senior long-term debt. Inclusion of the short-term debt in years prior to 1991 makes those historical ratios more meaningful.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

Columbia Energy Group and Subsidiaries

(\$ in millions, except per share amounts)	1991*	1990	1989	1988	1987
INCOME STATEMENT DATA (\$)					
Total operating revenues	2,463.7	2,346.7	3,189.3	3,157.5	2,855.7
Products purchased	1,056.5	846.8	1,669.0	1,822.3	1,534.2
Earnings (Loss) before extraordinary item and accounting changes	(794.8)	104.7	145.8	119.0	111.3
Earnings (Loss) on common stock	(694.4)	104.7	145.8	111.1	100.5
PER SHARE DATA					
Earnings (Loss) per common share (\$):					
Before extraordinary item and accounting changes	(15.72)	2.21	3.21	2.46	2.30
Earnings (Loss) per common share	(13.74)	2.21	3.21	2.46	2.30
Average common shares outstanding (000)	50,537	47,326	45,511	45,210	43,787
Diluted earnings (loss) per common share (\$):					
Before extraordinary item and accounting changes	(15.72)	2.21	3.19	2.46	2.29
Diluted earnings (loss) per common share	(13.74)	2.21	3.19	2.46	2.29
Diluted average common shares (000)	50,537	47,426	45,696	45,210	43,837
Dividends:					
Per share (\$)	1.16	2.20	2.00	2.29	3.18
Payout ratio (%)	N/A	99.5	62.3	93.3	138.3
BALANCE SHEET DATA (\$)					
Capitalization including debt subject to Chapter 11:					
Common stock equity	1,006.9	1,757.8	1,620.3	1,552.6	1,523.7
Preferred stock	-	-	-	-	110.0
Long-term debt	6.1	1,428.7	1,196.0	1,038.4	1,438.0
Short-term debt	N/A	735.5	634.2	697.1	327.5
Current maturities of long-term debt	2.9	35.2	47.2	52.7	69.6
Debt subject to Chapter 11	2,317.1	-	-	-	-
Total	3,333.0	3,957.2	3,497.7	3,340.8	3,468.8
Total assets	6,332.2	6,196.3	5,878.4	5,641.0	5,440.9
OTHER FINANCIAL DATA					
Capitalization ratio (%) (including current maturities**):					
Common stock equity	30.2	44.4	46.3	46.5	43.9
Preferred stock	-	-	-	-	3.2
Debt	69.8	55.6	53.7	53.5	52.9
Capital expenditures (\$)	381.9	629.6	473.5	307.9	298.8
Net cash from operations (\$)	531.6	420.1	400.5	429.4	702.0
Book value per common share (\$)	19.92	34.83	35.50	34.18	34.08
Return on average common equity before extraordinary item and accounting changes (%)	N/A	6.2	9.2	7.7	7.5

N/A - Not Applicable

Dilutive potential common shares were not included in the 1995 computation of diluted EPS as the effect would be antidilutive.

* Reference is made to Note 2 of Notes to Consolidated Financial Statements.

Due to the bankruptcy filings, interest expense of approximately \$230 million, \$210 million and \$86 million was not recorded in 1994, 1993, 1992 and 1991, respectively. Interest expense of \$982.9 million including write-off of unamortized discounts on debentures, was recorded in the fourth quarter of 1995.

** Prior to 1991, Columbia made extensive use of variable rate debt since the associated cost was normally less than senior long-term debt. Inclusion of the short-term debt in years prior to 1991 makes those historical ratios more meaningful.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors and prospective investors should understand that several factors govern whether any forward-looking statement contained herein will be or can be achieved. Any one of those factors could cause actual results to differ materially from those projected herein. These forward-looking statements include statements concerning Columbia's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and including any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, Columbia may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of Columbia, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially. Realization of Columbia's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, competition, weather, regulatory and legislative changes as well as changes in general economic and capital and commodity market conditions many of which are beyond the control of Columbia. In addition, the relative contributions to profitability by segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time due to changes in the marketplace.

With respect to any references made to ratings assigned to Columbia's debt securities, there can be no assurance that Columbia will be successful at maintaining its credit quality or that such credit ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by these rating agencies. Credit ratings reflect only the views of the rating agencies, whose methodology and the significance of their ratings may be obtained from them.

CONSOLIDATED REVIEW

Net Income

Columbia's 1997 record-setting net income was \$273.3 million, or \$4.93 per share. Net income was up \$51.7 million, or 81 cents per share, over 1996 due in large part to lower operating costs for the regulated subsidiaries and increased revenues from transportation and storage services and gas management activities. This improvement was achieved despite weather that was 4% warmer than 1996. The weather difference reduced 1997 net income by \$15.2 million compared to 1996.

Several nonrecurring items also impacted the results of both years.

Restructuring activities reduced net income in 1997 by \$20.2 million and in 1996 by \$35.7 million. Current period results were improved by a \$12.8 million reduction to tax expense resulting from benefits gained through the filing of a consolidated state tax return, a \$6 million after-tax gain from the sale of coal assets and a \$5.5 million gain on the temporary deactivation of a storage field. The 1996 results benefited from a \$5.6 million favorable adjustment to the 1995 sale of Columbia's southwest gas and oil subsidiary.

Revenues

Operating revenues for 1997 were \$5,053.6 million, an increase of \$1,699.6 million over 1996. The higher revenues were principally due to increased sales by the gas marketing subsidiary, Columbia Energy Services Corporation (Columbia Energy Services), and higher rates in effect for the distribution subsidiaries for the recovery of increased gas costs. Also improving revenues were the effects of regulatory settlements reached in 1997 for Columbia Gas Transmission Corp. (Columbia Transmission) and Columbia Gas of Ohio, Inc. (Columbia of Ohio) and increased off-system sales, transportation and storage services. Tempering these improvements were lower

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

sales volumes in 1997 compared to 1996 for the distribution subsidiaries related to warmer weather and lower wellhead prices for gas production.

In 1996, operating revenues of \$3,354 million reflected an increase of \$718.8 million over 1995 primarily due to additional sales by the gas marketing and distribution subsidiaries. Also increasing revenues in 1996 were higher gas prices that increased both the gas commodity portion of the distribution subsidiaries' rates and prices received for gas production as well as the effect of colder weather experienced in early 1996. Higher base rates in effect for the regulated subsidiaries also increased revenues \$68.7 million. In 1995, revenues included \$96.1 million from Columbia's former southwest gas and oil subsidiary, that was sold effective year end 1995, as well as \$12.2 million of exit fee payments received by Columbia Gulf Transmission Company (Columbia Gulf). Exit fee payments were paid to Columbia Gulf by certain of its customers as compensation for terminating their transportation agreements before the scheduled expiration date.

Expenses

Operating expenses for 1997 of \$4,544.2 million were \$1,668.4 million higher than 1996. This increase reflected \$1,657 million higher product purchased expense attributable to gas purchased by Columbia Energy Services to meet sales requirements and the higher cost of gas purchased by the distribution subsidiaries. Despite acquisitions made in 1997 and higher startup costs for new services, Columbia's 1997 operation and maintenance expense decreased \$3.6 million from 1996. Operation and maintenance expense for the Marketing, Propane and Power Generation segment rose \$22.4 million due in large part to expanding the marketing operations through the acquisition of PennUnion Energy Services L.L.C. (PennUnion) and building Columbia Energy Services' infrastructure to support its growth. Also contributing to higher costs was the 1997 acquisition of Alamco, Inc. (Alamco), an Appalachian exploration and production company. Operation and maintenance costs for the regulated subsidiaries decreased, after adjusting for nonrecurring items, reflecting the beneficial effect of implementing restructuring initiatives. These nonrecurring items included a \$10.1 million reserve for the anticipated sale of certain pipeline facilities; restructuring charges recorded in both years; a \$5.3 million period-to-period improvement for FERC Order No. 94 adjustments, an environmental reserve addition in 1997 and the costs of a risk management program for Columbia of Ohio and Columbia Gas of Kentucky, Inc. (Columbia of Kentucky), designed to mitigate potential adverse effects of certain future business risks.

In 1996, operating expenses of \$2,875.8 million increased \$630.8 million over 1995 reflecting a \$660.5 million increase in products purchased primarily to meet additional sales requirements. Operation and maintenance expense increased \$22.6 million and included restructuring costs of \$54.9 million in 1996 and \$5.8 million in 1995. Expenses in 1995 also included \$39.1 million associated with the operations of Columbia's former southwest gas and oil subsidiary. After adjusting for restructuring charges, operation and maintenance expense was down approximately \$30 million in 1996. Depreciation and depletion expense decreased \$54.8 million primarily as a result of reduced depletable plant due to the sale of Columbia's southwest gas and oil subsidiary and a lower depletion rate attributable to higher gas prices.

Other Income (Deductions)

Twelve Months Ended December 31 (in millions)	1997	1996	1995
Interest income and other, net (58.2)	\$ 40.4	\$ 26.1	\$
Interest expense and related charges (988.4)	(157.6)	(166.8)	
Reorganization items, net	--	--	13.4
Total Other Income (Deductions) \$(1,033.2)	\$(117.2)	\$ (140.7)	

Other Income (Deductions) reduced income \$117.2 million in 1997 and \$140.7 million in 1996. The improvement was largely due to \$3.5 million of reduced interest expense on short-term borrowings, an \$8.5 million pre-tax gain for the payment received from a coal company related to the deactivation of a storage field to allow the mining of coal reserves as well as increased interest income on temporary cash investments. Also in 1997, Columbia's coal assets were sold which improved pre-tax income approximately \$9.5 million. In the second quarter of 1996, an \$8.6 million pre-tax favorable adjustment was recorded for the 1995 sale of Columbia's southwest gas and oil subsidiary. Interest income and other, net, in 1996 included approximately \$13.5 million for Order 94 refunds that was offset in interest expense and related

charges with no effect on income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

When comparing 1996 to 1995, Other Income (Deductions) reduced income \$140.7 million in 1996, compared to a decrease in income of \$1,033.2 million in 1995. The principal reason for the \$988.4 million decrease in 1995's income for interest expense and related charges was \$983 million of prepetition debt obligations recorded at emergence from bankruptcy in November 1995. Interest income and other, net, of \$26.1 million in 1996 included the adjustment recorded for the sale of Columbia's southwest gas and oil subsidiary; \$5.6 million of interest earned on certain tax issues; \$3.3 million of interest income on temporary cash investments; and a \$1.8 million gain on the sale of Columbia Gulf's interests in the Overthrust pipeline partnership. Interest expense and related charges for 1996 reflected \$140.4 million of interest expense on long-term debt and \$11.7 million of interest expense on short-term debt obligations. Interest expense in 1996 also included \$3.9 million of interest on rate refunds recorded by the rate regulated subsidiaries.

Income Taxes

Income tax expense in 1997 of \$118.9 million increased only \$3 million over the year earlier despite \$54.7 million higher taxable income. This was due in large part to a \$12.8 million reduction to tax expense resulting from benefits gained through the filing of a consolidated state tax return. The change in taxable income was the primary reason for the variance in income tax expense between 1996 and 1995.

Extraordinary Item

In 1995, Columbia recorded an extraordinary after-tax gain of \$71.6 million for the cumulative adjustment for the reapplication of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71) for Columbia Transmission and Columbia Gulf. The impact of the reapplication resulted in the recognition of regulatory assets for certain costs previously expensed which are expected to be recovered in rates, mainly environmental and postemployment benefit costs, and the recording of revenues and expenses in a manner to reflect the ratemaking process. Management believes that cost of service rate concepts will continue to be applicable to the Federal Energy Regulatory Commission (FERC) regulated transmission subsidiaries for the foreseeable future.

LIQUIDITY AND CAPITAL RESOURCES

Cash from Operations

A significant portion of Columbia's operations are subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from sales and transportation services typically exceed cash requirements. Conversely, during the remainder of the year, cash on hand, together with external short-term and long-term financing as needed, are used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

For 1997, net cash from operations was \$468.2 million, a decrease of \$8.8 million from the same period in 1996 primarily reflecting higher cash needs for working capital purposes. During 1997, \$90.3 million of additional cash was invested in working capital, compared to \$41.4 million of additional cash in 1996. Before these working capital changes, long-term cash flow from operations was \$558.5 million in 1997, compared to \$518.4 million in 1996, an increase of \$40.1 million. The increase was primarily due to the \$51.7 million increase in net income during the year. The increased use of cash for working capital during 1997 was caused by higher accounts receivable, offset by lower income tax refunds receivable and a switch from being underrecovered to overrecovered for the distribution subsidiaries' gas costs. Tempering these uses of cash was the full period effect of higher base rates for Columbia Transmission and Columbia of Kentucky.

The rise in gas prices in 1996 resulted in an increase in the commodity portion of the distribution subsidiaries' rates as provided for under the current regulatory process, resulting in a higher recovery level of gas costs in 1997. As of year end 1996, the distribution subsidiaries were in an underrecovered position because the rapid increase in the cost of gas exceeded the recovery levels that were allowed. The distribution subsidiaries were in an overrecovered position as of year end 1997.

After adjusting the 1995 deficit for emergence payments, net cash from operations in 1996 decreased \$168.9 million from 1995 to \$477 million. Cash in 1996 was lower than 1995 due to the lag in recovering gas costs by the distribution subsidiaries in 1996 stemming from a rise in prices that exceeded the distribution subsidiaries' then current recovery levels. Also reducing cash in 1996 from 1995 was the effect of a higher average cost of gas placed in storage. This decrease was partially offset by the working capital improvement for income tax refunds of \$271.5

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

million, the favorable impact of colder weather in 1996 on the distribution subsidiaries, and higher base rates in effect for the regulated subsidiaries.

Financing Activities

Columbia satisfies its liquidity requirements through internally generated funds and the use of two unsecured bank revolving credit facilities that total \$1.35 billion (Credit Facilities). The Credit Facilities were established in March 1998, and replaced the \$1 billion five-year revolving credit facility entered into by Columbia in November 1995. The Credit Facilities also support Columbia's recently established commercial paper program.

Columbia's \$1.35 billion Credit Facilities consist of a \$900 million five-year revolving credit facility and a \$450 million 364-day revolving credit facility with a one-year term loan option. The five-year facility will provide for the issuance of up to \$300 million of letters of credit.

As of December 31, 1997, Columbia had \$120 million of short-term debt and approximately \$42.7 million of letters of credit outstanding under the prior credit facility. Under Columbia's commercial paper program, \$208.8 million was outstanding at December 31, 1997. There were no commercial paper borrowings in 1996.

Interest rates on borrowings under the Credit Facilities are based upon the London Interbank Offered Rate, Certificate of Deposit rates or other short-term interest rates. The interest rate margins and facility fees on the commitment amount are based on Columbia's public debt ratings. In 1997, Fitch Investors Service, Moody's Investors Service, Inc. and Standard & Poor's Ratings Group upgraded Columbia's long-term debt rating to BBB+, Baa1 and BBB+, respectively. Under the Credit Facilities, higher debt ratings result in lower facility fees and interest rates on borrowings. Columbia's commercial paper credit ratings are F-2 by Fitch, P-2 by Moody's and A-2 by S&P.

Columbia has an effective shelf registration statement on file with the U. S. Securities and Exchange Commission for the issuance of up to \$1 billion in aggregate of debentures, common stock or preferred stock in one or more series. In March 1996, Columbia issued 5,750,000 shares of common stock under the shelf registration and used the proceeds to reduce borrowings incurred under the prior credit facility and to retire \$400 million of preferred stock issued in late 1995. No further issuances of the remaining \$750 million available under the shelf registration are scheduled at this time.

Management believes that its sources of funding are sufficient to meet short-term and long-term liquidity needs not met by cash flows from operations.

Capital Expenditures

The table below reflects actual capital expenditures by segment for 1997 and 1996 and an estimate for 1998:

(in millions) 1996	1998	1997

Transmission and Storage \$143	\$250	\$245
Distribution 148	162	159
Exploration and Production 12	86	136*
Marketing, Propane and Power Generation 6	46	15
Corporate 6	11	5

Total \$315	\$555	\$560

* Does not reflect approximately \$23 million of gathering facilities that Columbia Transmission sold to Columbia Natural Resources, Inc.

For 1997, capital expenditures were \$560 million, an increase of \$245 million over 1996. The Alamco acquisition in 1997 represented approximately \$101 million of the increase. In addition, the 1997 program included \$118 million for market expansion activities in the transmission and storage segment. The largest portion of the transmission and storage segment's investments are made to ensure the safety and reliability of the pipelines and for market expansion activities. The distribution subsidiaries' program includes investments to extend service to new areas and develop future markets, as well as expenditures required to ensure safe, reliable and improved service.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

For 1998, capital expenditures of \$555 million are expected to be essentially the same as the 1997 program. Included in the 1998 program is approximately \$86 million for market expansion initiatives for the transmission and storage segment and an additional \$65 million is planned for new business and development activities for the distribution segment. The 1998 program also includes an increase in the Marketing, Propane and Power Generation segment for additional investment in Columbia Energy Services' infrastructure. The principal reason for the increase in the corporate segment was expenditures associated with the new corporate headquarters, scheduled for completion in the fall of 1998.

All discretionary capital expenditures are subject to Columbia's value added approach (CVA) that determines whether the anticipated return on a business activity or project exceeds its risk adjusted capital cost.

Market Risk Exposure

Subsidiaries in Columbia's production, marketing and propane operations are exposed to market risk due to fluctuations in commodity prices. In order to help minimize this risk, Columbia engages in commodity hedging activities to help ensure stable cash flows, favorable prices and margins as well as to help capture any long-term increases in value. Financial instruments utilized by Columbia for commodity hedging include futures, swaps and options. Columbia Natural Resources, Inc. (Columbia Resources) utilizes financial instruments to fix prices for a portion of its future production volumes. These positions are hedged in the marketplace through a gas marketing subsidiary. Columbia Energy Services utilizes financial instruments to help assure adequate margins on the purchase and resale of natural gas. Columbia Propane utilizes financial instruments to help protect the value of inventories. Therefore, any losses or gains on the physical transactions are largely offset by gains or losses on these financial trades.

Columbia's current risk management program allows the subsidiaries to use derivative instruments for hedging purposes only. In addition, Columbia employs multiple risk control mechanisms to mitigate market risk, including volumetric limits. For the gas marketing operations, where most of Columbia's derivative activity occurs, its market risk at year end 1997 was computed using a value at risk methodology. Value at risk simulates forward price curves in the energy markets to estimate the size and probability of future potential losses. The year end value at risk calculation was based on a 95% confidence interval and a two-day time horizon. Loss is defined in the calculation as fair market value loss. As of December 31, 1997, the value at risk for Columbia's market risk sensitive instruments was immaterial.

Restructuring Activities

In 1997, approximately \$31.1 million of pre-tax expense was recorded to reflect restructuring-related costs, primarily for relocation, severance and benefits. This restructuring initiative began in 1995 to streamline operations and make them more efficient and cost-competitive. During 1996, \$54.9 million pre-tax was recorded for similar restructuring activities. The beneficial effect of efficiencies gained will be realized through improved profitability of Columbia's operations and reduced rates being charged to customers of the regulated subsidiaries.

As indicated in the results of operations, Columbia is realizing lower operation and maintenance costs as a result of implementing these reengineering initiatives in its various operations. It is anticipated that the favorable effect of these initiatives will continue in the future. The project was substantially completed at year end 1997 and resulted in the total number of employees System-wide decreasing approximately 15% from the year-end 1995 level of nearly ten thousand.

1997 Acquisitions

Columbia's strategic goal is to increase its investment in non-rate regulated (nonregulated) businesses to a level that would provide for such operations to contribute approximately 30% of Columbia's consolidated operating income by 2002. Consistent with this objective, Columbia Energy Services purchased PennUnion in 1997, an energy-marketing affiliate of Pennzoil Company, for approximately \$14.75 million, subject to certain working capital and other adjustments. In addition, Columbia Resources acquired Alamco, an Appalachian gas and oil exploration and development company, for approximately \$101 million. For additional information on the Alamco acquisition, see the Exploration and Production segment, and see the Marketing, Propane and Power Generation segment for a further discussion of the PennUnion acquisition. Columbia continually evaluates acquisition and strategic alliance opportunities made available to it by the marketplace. However, it is Columbia's general policy not to comment on the specifics of any such opportunity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Impact of Year 2000 on Computer Systems

The Year 2000 issue is a world-wide concern that many existing computer programs were initially designed without considering the impact of the change to the year 2000. This could result in the programs incorrectly identifying dates in the year 2000. If not corrected, certain applications could fail or create erroneous results.

Columbia is currently in the process of reviewing its computer applications and their interaction with third parties to address the Year 2000 issue. Based on the review to date, certain applications have been found that are not Year 2000 compliant. It is anticipated that all major applications will have been reviewed and, if necessary, corrected or replaced by the year 2000.

At the present time, management does not anticipate that the cost of correcting or replacing those applications that are not Year 2000 compliant will have a material impact on Columbia's financial condition.

Common Stock Prices and Dividends

Quarter Ended	Market Price			Quarterly Dividends Paid
	High	Low	Close	
	\$	\$	\$	\$
1997				
December 31	78 5/8	69 1/2	78 9/16	.25
September 30	72 1/4	65 3/16	70	.25
June 30	67 3/8	56	65 1/4	.25
March 31	65 7/8	57 5/8	57 7/8	.15
1996				
December 31	66 1/4	56	63 5/8	.15
September 30	59 5/8	51	56	.15
June 30	52 1/8	43 3/4	51 7/8	.15
March 31	46 1/2	42 1/4	45 7/8	.15

TRANSMISSION AND STORAGE OPERATIONS

Proposed Millennium and Vector Pipeline Projects

The proposed Millennium Pipeline Project, in which Columbia Transmission is participating and will serve as developer and operator, will transport western gas supplies to Northeast and Mid-Atlantic markets. The 442-mile pipeline will connect to TransCanada Pipe Lines Ltd. at a new Lake Erie export point and transport up to approximately 700,000 Mcf per day to eastern markets. Eight shippers have agreements for the available capacity. A filing with the FERC requesting approval of the Millennium Project, was made on December 22, 1997. This filing begins the extensive review process, including opportunities for public review, communication and comment. On February 3, 1998, the FERC issued a Notice of the Millennium Application which provided that any person desiring to participate in the hearing process or make any protest to the application should, on or before February 24, 1998, file with the FERC a motion to intervene or a protest in accordance with FERC regulations. Several interventions were submitted to the FERC by interested parties. On March 9, 1998, Columbia Transmission filed with the FERC a response to the interventions. The proposed in-service date is November 1999. Columbia Transmission will continue its ongoing assessment of the project's schedule into the second quarter of 1998.

The current sponsors of the proposed Millennium Project are Columbia Transmission, Westcoast Energy, Inc., TransCanada Pipe Lines Ltd., and MCN Energy Group, Inc.

Columbia Transmission is in discussions with IPL Energy Inc. to become a sponsor of the proposed Vector Pipeline project to transport western gas supplies from Chicago to the Ontario area. The proposed Vector Pipeline would provide one of several upstream links for Columbia Transmission's proposed Millennium Pipeline.

Market Expansion Project

After receiving final FERC approval, Columbia Transmission began construction on the expansion of its pipeline and storage systems during 1997 to meet increased customer demand. The first phase of service began in November 1997. Upon completion, which is expected in 1999, the expansion will add approximately 500,000 Mcf per day of firm service to 23 customers.

The New York State Electric & Gas Corporation (NYSEG) filed an appeal to the expansion project with the U. S. Court of Appeals for the District of Columbia Circuit, primarily to challenge the FERC's approval of rolled-in pricing for the market expansion service levels. NYSEG has not requested a stay of Columbia Transmission's certificate order. Accordingly, construction is proceeding.

Competition and the Effect of LDC Unbundling Services

The transmission subsidiaries compete with other interstate pipelines for the transportation and storage of natural gas. Furthermore, since the issuance of Order No. 636, various states throughout Columbia Transmission's service area have initiated proceedings dealing with open access and unbundling of local distribution companies' (LDC) services. Among other things, unbundling involves providing all LDC customers with the choice of what entity will serve as the merchant supplier, a role historically filled by the LDC. While the scope and timing of these various unbundling initiatives varies from state to state, retail choice programs are being extended to increasing numbers of LDC customers throughout Columbia Transmission's market area.

Among the issues being addressed in the state unbundling proceedings is the treatment of the pipeline transmission and storage agreements which have underpinned the traditional LDC merchant function. In the case of Columbia Transmission and Columbia Gulf, contracts covering the majority of their firm transportation and storage quantities with LDCs have primary terms which extend to October 31, 2004. Management fully expects that the LDCs, or those entities to which pipeline capacity may be assigned as a result of the LDC unbundling process, will continue to fulfill their obligations under these agreements. However, in view of the changing market and regulatory environment, the transmission companies have commenced the process of discussing long-term transportation and storage service needs with their firm customers. While those discussions could result in the restructuring of some of these contracts on mutually agreeable terms prior to 2004, it is not possible to predict the results of those discussions at this time.

Although the specific outcome of these capacity issues is uncertain, at this time, management does not believe that it will have a material impact on Columbia's financial condition.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Regulatory Matters

Columbia Gulf's Rate Filing

Columbia Gulf filed a general rate case on October 31, 1996, which became effective on May 1, 1997, subject to refund. An agreement in principle settling all issues and rate levels in Columbia Gulf's rate proceedings was reached in January 1998. Active parties in the proceeding have unanimously agreed to the terms of the settlement. On March 3, 1998, a written offer of settlement was filed with the FERC. Columbia Gulf anticipates that the settlement will be approved without any modification by the end of the second quarter of 1998. Management believes that if the settlement is approved as presently written, it will not have a material impact on Columbia's financial statements which include an adequate reserve for the settlement.

Columbia Gulf Main-line Capacity Proceeding

In September 1993, the FERC directed Columbia Gulf to show cause as to why it had not filed for FERC abandonment authorization to reduce capacity on its mainline facility. Since that time, Columbia Gulf has responded to various information requests from the FERC. In an August 8, 1997 order, the FERC approved a settlement, which required Columbia Gulf to conduct a 30-day open season on additional firm mainline capacity up to its certificated design. Although certain of Columbia Gulf's customers challenged the terms of the settlement, Columbia Gulf concluded the open season on December 15, 1997, which resulted in requests for capacity that exceeded the capacity specified in Columbia Gulf's FERC certificate. The challenges remain pending at the FERC.

Columbia Transmission's Phase II Rate Proceeding

Columbia Transmission's rate case settlement, approved by the FERC in April 1997, excluded the environmental cost recovery issue. A hearing to address this issue is currently scheduled for the fall of 1998. Pending the outcome of this proceeding, Columbia Transmission continues to collect approximately \$18 million per year, subject to refund, for environmental costs.

Challenge to Columbia Transmission's Rate Design

Pursuant to a provision of Columbia Transmission's 1997 rate settlement, the New York Public Service Commission (NYPSC) had the right to initiate a hearing challenging the appropriateness of the Straight Fixed Variable (SFV) rate design for Columbia Transmission. The NYPSC exercised its right to a hearing, which is currently scheduled for late 1998. Any change from the current SFV methodology would be placed into effect no earlier than February 1, 2000.

Sale of Gathering Facilities

Effective September 1, 1997, Columbia Transmission sold approximately 2,700 miles of gathering lines to Columbia Resources for approximately \$23 million, with an additional 750 miles anticipated to be sold to Columbia Resources by the second quarter of 1998. In addition, approximately 1,800 miles of gathering lines and facilities in Ohio were sold to Gatherco, Inc., effective October 31, 1997. The majority of the remaining 800 miles of gathering lines are expected to be sold to other parties during 1998.

Capital Expenditure Program

The transmission and storage segment's net capital expenditure program was approximately \$245 million in 1997 and is projected to be \$250 million in 1998. Market expansion initiatives totaled approximately \$118 million in 1997 and \$86 million is anticipated in 1998. The remaining expenditures are for modernizing and upgrading facilities.

Restructuring and Relocation Activities

Columbia Transmission and Columbia Gulf began a restructuring project in early 1996 to streamline the business functions and improve productivity by focusing on all processes within the transmission companies. In 1996, the implementation of key recommendations began and continued throughout 1997. In addition, during 1997 certain staff and management positions were relocated to Northern Virginia. In 1997, approximately \$24.3 million was recorded for restructuring and relocation costs.

Environmental Matters

Columbia's transmission subsidiaries have implemented programs to continually review compliance with existing environmental standards. In addition, the transmission subsidiaries continue to review past operational activities and to formulate remediation programs where necessary. Columbia Transmission is currently conducting assessment, characterization and remediation activities at specific sites under a 1995

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In 1995, Columbia Transmission estimated that the cost of its environmental program under the AOC may range between \$204 million and \$319 million over the life of the program. This estimate was based on a limited amount of actual data available and utilized a variety of assumptions, including: the number of sites to be investigated, characterized and remediated; the location, nature and levels of wastes that will be treated at or disposed of from each site; the amount of time and nature of equipment required for such activities; the appropriate remediation levels and the technology to be utilized; and the frequency with which groundwater contamination might be discovered at sites requiring remediation. The estimate did not include previously identified costs for certain specific activities, aggregating approximately \$50 million, for which Columbia Transmission already had reasonable estimates.

Following an extensive review of assumptions utilized in arriving at the estimate, management has concluded that only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5). This conclusion was based upon the fact that the actual characterization and remediation experience of Columbia Transmission was extremely limited and information on environmental conditions at many of the sites or former sites of operations was not yet available. The nature and condition of such sites varies greatly, and any change in any of the numerous assumptions used in the estimate may materially alter the estimated range of costs, with no assurance that actual costs will not exceed amounts specified in the range. Columbia Transmission is unable, at this time, to accurately estimate the time frame and potential costs of all site screening, characterization and remediation. As Columbia Transmission continues its program pursuant to the AOC and costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. Moreover, in time, management expects that, as additional work is performed and more facts become available, it will then be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with U. S. Securities and Exchange Commission's Staff Accounting Bulletin No. 92, SFAS No. 5 and American Institute of Certified Public Accountants Statement of Position 96-1.

Columbia Transmission received EPA approval for and completed characterization activities for 73 major facilities, approximately 2,800 liquid removal points and approximately 900 mercury measurement stations in 1997. In addition, approximately 400 mercury measuring stations were remediated.

Columbia Transmission also continued to conduct assessment and remediation of impacted soils at locations prior to normal construction and maintenance activities under its EPA approved Construction and Operations Work Plan. Columbia Transmission conducted assessments at 160 sites and based on these assessment results, performed remedial activities in varying degrees at approximately 85 locations.

As a result of these 1997 activities, Columbia Transmission recorded an additional liability of \$16.8 million. Actual expenditures of approximately \$17.1 million during 1997 charged to the liability resulted in a remaining liability of \$125.4 million. Columbia Transmission's environmental cash expenditures are expected to be approximately \$18 million in 1998 and up to \$20 million annually until the AOC is satisfied. These expenditures will be charged against Columbia Transmission's previously recorded liability. Consistent with Statement of Financial Accounting Standards No. 71, a regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates. Columbia Transmission continues to pursue recovery of environmental expenditures from its insurance carriers; however, at this time, management is unable to determine the total amount or final disposition of any recovery. Management does not believe that Columbia Transmission's environmental expenditures will have a material adverse effect on its operations, liquidity or financial position, based on known facts and existing laws and regulations and the long period over which expenditures will be made.

In addition, predecessor companies of Columbia Transmission may have been involved in the operation of manufactured gas plants. When such plants were abandoned, material used and created in the process was sometimes buried at the site. At this time Columbia Transmission is unable to determine if it will become liable for any characterization or remediation costs at such sites.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Throughput

Columbia Transmission's throughput consists of transportation and storage services for local distribution companies and other customers within its market area. Throughput for Columbia Gulf reflects mainline transportation services from Rayne, Louisiana, to West Virginia and short-haul transportation services from the Gulf of Mexico to Rayne, Louisiana.

Total throughput for the transmission and storage segment totaled 1,301.5 Bcf for 1997, a decrease of 76.6 Bcf from 1996 primarily due to warmer weather in Columbia Transmission's operating territory. Total throughput for 1996 was 1,378.1 Bcf, an increase of 41.9 Bcf from 1995. The colder weather in 1996 contributed to increased demand as well as increased marketing efforts on Columbia Gulf's system.

Columbia Transmission's market area transportation declined 69.8 Bcf to 1,032.6 Bcf during 1997 largely due to the 5% warmer weather in the first quarter and lower summer-related requirements from electric cogeneration facilities. Total throughput for 1996 of 1,102.4 Bcf declined 3.7 Bcf from 1995 primarily due to additional transportation services utilized in the summer of 1995 and increased storage withdrawals in the last quarter of 1995 to meet colder weather demands.

Mainline transportation for Columbia Gulf decreased 26.2 Bcf to 607.5 Bcf in 1997, reflecting the impact of warmer weather in Columbia Transmission's operating territory. During 1996, mainline transportation increased 28.7 Bcf from 1995 due to the colder weather during the 1995-1996 winter heating season. As a result, Columbia Gulf's mainline services were heavily utilized during the summer of 1996 to refill depleted gas inventories on Columbia Transmission's storage system in preparation for the 1996-1997 winter heating season.

Columbia Gulf's short-haul transportation decreased 14.1 Bcf from 1996 to 252.4 Bcf in 1997 largely due to a decline in market demand in the area south of Rayne, Louisiana. An increase in short-haul transportation of 45.1 Bcf in 1996 over 1995 reflected increased production and new sources of offshore supply as well as new interconnections in Louisiana.

Operating Revenues

Operating revenue of \$849.8 million in 1997 increased \$39 million over the previous year. After adjusting for the recovery of upstream transportation costs and certain other revenues that are fully offset in operating expense, current operating revenues increased \$28 million. This increase was largely due to the sale of certain base gas volumes that were part of Columbia Transmission's overall rate case settlement which became effective in the second quarter. Increased revenues from transportation and storage services also contributed to the improvement. Tempering these improvements were reduced revenues attributable to a lower cost-of-service level underlying Columbia Transmission's rates in 1997. During the first quarter of 1998, an additional 5 Bcf of base gas is anticipated to be sold under the terms of Columbia Transmission's rate case settlement.

Operating revenue increased \$50.5 million to \$810.8 million in 1996. After adjusting for recovery items mentioned above, operating revenue increased \$37.7 million over 1995. This increase was primarily due to the new rates in place for Columbia Transmission effective February 1, 1996. This increase was partially offset by recognizing \$12.2 million in exit fees collected by Columbia Gulf in 1995.

Operating Income

Operating income for the transportation and storage segment for 1997 was \$264.3 million, an increase of \$56.5 million over 1996. This improvement is attributable to \$39 million higher operating revenues, as discussed previously, and \$17.5 million lower operating expense. Operation and maintenance expense declined \$10.4 million primarily reflecting lower restructuring costs and savings achieved through the implementation of restructuring initiatives. In addition, operation and maintenance expense declined \$5.4 million due to the effects in 1997 and 1996 of a 1980's issue regarding production-related costs. Columbia LNG Corp. contributed to 1997 results an additional \$4.3 million over 1996, primarily reflecting a higher level of peaking services for new and existing customers. Tempering these improvements were higher 1997 expense of \$10.1 million to reflect a valuation reserve for the anticipated sale of certain pipeline facilities and an increase in the environmental reserve.

Operating income decreased \$5.2 million to \$207.8 million in 1996 from 1995 primarily as a result of a \$55.7 million increase in operating expenses partially offset by the increase in revenues mentioned above. This increase was

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

primarily the result of restructuring charges and employee incentive awards. These decreases to operating income were tempered by a \$2.8 million improvement for Columbia LNG, reflecting its first full year of commercial operations.

STATEMENTS OF OPERATING INCOME FROM TRANSMISSION AND STORAGE OPERATIONS (UNAUDITED)

Year Ended December 31 (in millions)	1997	1996	1995
OPERATING REVENUES			
Transportation revenues	\$622.0	\$629.0	\$612.7
Storage revenues	179.8	159.5	139.3
Other revenues	48.0	22.3	8.3
Total Operating Revenues	849.8	810.8	760.3
OPERATING EXPENSES			
Operation and maintenance	428.3	444.1	392.5
Depreciation	104.3	102.6	103.8
Other taxes	52.9	56.3	51.0
Total Operating Expenses	585.5	603.0	547.3
OPERATING INCOME	\$264.3	\$207.8	\$213.0

TRANSMISSION AND STORAGE OPERATING HIGHLIGHTS

	1997	1996	1995	1994	1993
CAPITAL EXPENDITURES (\$ in millions)	244.9	142.7	172.5	179.1	137.2
THROUGHPUT (Bcf)					
Transportation					
Columbia Transmission					
Market area	1,032.6	1,102.4	1,106.1	1,038.6	895.9
Columbia Gulf					
Main-line	607.5	633.7	605.0	590.3	579.9
Short-haul	252.4	266.5	221.4	225.4	258.1
Intrasegment eliminations	(591.0)	(624.5)	(596.3)	(583.2)	(561.7)
Total Transportation	1,301.5	1,378.1	1,336.2	1,271.1	1,172.2
Sales	-	-	-	0.9	183.7
Total Throughput	1,301.5	1,378.1	1,336.2	1,272.0	1,355.9

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

DISTRIBUTION OPERATIONS

Market Conditions

Weather during 1997 was 4% warmer than 1996 in the market area served by Columbia's distribution companies (Distribution) and, as a result, Distribution's weather-sensitive deliveries were down 15 Bcf compared to 1996. In addition, a 10-month labor strike shut down production at a major customer, causing a 7 Bcf decline in usage compared to 1996. Although warmer than 1996, 1997's weather was 2% colder than normal. There were some notable weather fluctuations in 1997, which had the fifth warmest February and the second coldest April/May period since 1950.

Competition

Distribution competes with investor-owned, municipal, and cooperative electric utilities throughout its five-state service area. Competition is generally strongest in the residential and commercial markets of Kentucky, southern Ohio and southwestern Pennsylvania where electric rates are driven by low-cost coal-fired generation. The northern Ohio and Pittsburgh, Pennsylvania areas have less competitive electric rates, due to the use of higher-cost nuclear-generated power. Distribution continues to capture a major portion of the energy market for newly built homes as a result of a strong customer preference for natural gas.

Approximately 40% of Distribution's industrial and commercial throughput, or 128 Bcf, is susceptible to bypass, because these customers are located close to multiple natural gas pipelines and local gas distribution companies. With the use of innovative rate and capacity release strategies and the negotiation of customer arrangements, substantial inroads by other natural gas competitors have been avoided to date. As a result, the estimated throughput exposure to bypass has been reduced to approximately 43 Bcf, representing about \$11 million in annual net revenue.

Regulatory Matters

On January 7, 1998, the Public Utilities Commission of Ohio (PUCO) approved a second amendment to Columbia of Ohio's 1994 rate case. The amendment was filed in November 1997 by Columbia of Ohio and a group comprising diverse interested parties, also known as the Collaborative. The amendment establishes a five-year funding mechanism that will enable Columbia of Ohio to expand its Customer CHOICE(R) transportation program for residential and small commercial customers statewide in 1998. The funding mechanism authorizes Columbia of Ohio to use off-system sales, capacity release revenues and fees collected from marketers to offset the cost of transition capacity that may be generated by expansion of the Customer CHOICE(R) program, while simultaneously providing Columbia of Ohio with an opportunity to retain some of the capacity release and off-system sales revenues along with the benefit of reductions to upstream capacity charges. The amendment to the settlement also extends by one year, to January 1, 2000, Columbia of Ohio's commitment not to file a base rate increase.

Although the amendment approves the funding mechanism to expand the Customer CHOICE(R) program statewide, the Collaborative will meet in early 1998 to discuss operationally-oriented program modifications that may be necessary or desirable to expand the program. Any modifications will be submitted to the PUCO for approval, and it is anticipated that the program will be expanded throughout Ohio in the second half of 1998.

The amendment gives Columbia of Ohio the responsibility to manage the transition pipeline capacity costs that will arise as residential and small commercial customers elect to acquire the commodity directly from marketers participating in the Customer CHOICE(R) program, and revenue streams from a number of sources including off-system sales and capacity releases with which to manage this responsibility. Columbia of Ohio has accepted the risk for up to 11% of the transition capacity costs to the extent these costs exceed the revenue streams available to offset them. However, if after the conclusion of the five year program, the revenues from these sources more than offset the transition capacity costs, then customers and Columbia of Ohio will share the credit balance, 75% to the customers and 25% to Columbia of Ohio.

Distribution continues to pursue initiatives that give retail customers the opportunity to purchase natural gas directly from marketers and to use Distribution's facilities for transportation service. These opportunities are being pursued through regulatory initiatives in all of its jurisdictions which have resulted in pilot transportation programs being offered in four of its five service areas. Once fully implemented, these programs would reduce Distribution's merchant function and provide customers with the opportunity for reduced energy costs. Excess capacity costs and

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

costs incurred by a utility associated with providing gas if the marketing company cannot supply the gas that customers purchased, sometimes referred to as the supplier of last resort, are two threshold issues that must be addressed as these programs expand to all customers. The state commissions in Distribution's five jurisdictions are at various stages in addressing these issues. Distribution is currently recovering the costs resulting from the unbundling of its services and believes that most such future costs and costs resulting from being the supplier of last resort will be recovered. As set forth in its regulatory settlement, as previously discussed, Columbia of Ohio will be at risk for up to 11% of the transition capacity costs. In addition, Columbia of Ohio has agreed to participate in discussions with interested parties regarding issues related to being the supplier of last resort.

Columbia of Ohio's Customer CHOICE(R) pilot transportation program, which began April 1, 1997, continues to add customers. There are now over 46,000 customers participating, including 41,000 residential customers. Of 17 marketers approved for participation, 13 are currently active in the program. The PUCO approved the initial program for a one-year period. As discussed earlier, Columbia of Ohio expects to expand the program to all of its 1.3 million customers beginning in mid-1998.

In June 1997, Columbia Gas of Pennsylvania, Inc. (Columbia of Pennsylvania) received approval from the Pennsylvania Public Utility Commission (PPUC) to extend its pilot Customer CHOICE(R) program into Allegheny County, including the city of Pittsburgh, beginning on November 1, 1997. There are nearly 26,000 customers and 9 marketers signed up to participate in the program. Columbia of Pennsylvania has over 100,000 customers in Allegheny County who are eligible for the program. Columbia of Pennsylvania's two-year pilot program began on November 1, 1996, in Washington County and there are over 11,000 out of a total of 37,000 customers and 9 marketers participating. As approved by the PPUC, the new program will give marketers the option of using their own pipeline capacity, rather than taking assignment of capacity held by Columbia of Pennsylvania. Although the PPUC has not taken a final position on transition capacity costs, such costs are currently being recovered through a surcharge mechanism.

In February 1998, Columbia Gas of Maryland, Inc. (Columbia of Maryland) reached an agreement with the staff of the Maryland Public Service Commission and the Maryland People's Counsel to settle a pending proceeding in which the People's Counsel had sought an annual revenue reduction of \$1.6 million, and Columbia of Maryland had sought an annual revenue increase of \$1.2 million. The settlement agreement provides for an annual revenue increase of \$200,000, which includes the effect of a decrease in annual depreciation rates of approximately \$534,000. In June 1997, Columbia of Maryland entered into the second year of its pilot transportation program for small commercial and industrial customers with 5 marketers and 500 customers participating. The second year of the residential pilot program began in November 1997 and has 5 marketers and 2,500 customers participating.

Columbia Gas of Virginia, Inc. (Columbia of Virginia), formerly Commonwealth Gas Services, Inc., filed a rate case with the Virginia State Corporation Commission (VSCC) in May 1997, requesting a \$10.1 million increase in annual revenue. Approximately \$8.5 million of the requested increase is to recover normal increases in the cost-of-service. Higher rates to recover these increased costs went into effect on October 18, 1997, subject to refund. The remaining \$1.6 million of the requested increase was based on recently passed legislation in Virginia providing for performance-based ratemaking (PBR). The PBR rules allow Columbia of Virginia to more timely recover the costs associated with its capital expenditure program if certain service quality benchmarks are attained. Also included were additional PBR rate increases of \$1.9 million effective October 18, 1998, and \$900,000 effective October 18, 1999. On December 31, 1997, Columbia of Virginia filed a motion to withdraw the PBR aspect of the case, which was subsequently granted. This action was the result of a delay imposed by the VSCC of the requested October 18, 1997 effective date for the initial \$1.6 million PBR increase, pending the outcome of a hearing in mid-1998. The withdrawal of the PBR converts the case to a traditional general rate case proceeding.

On September 30, 1997, the VSCC approved Columbia of Virginia's proposed two-year pilot transportation program for residential and small commercial customers called Customer CHOICE(R) Program. The pilot program, which began December 1, 1997, is open to approximately 27,000 customers in the Gainesville market area of Northern Virginia. There are over 1,800 customers participating in the program. These customers are served by 5 marketers out of a total of 8 approved to participate. Columbia of Virginia could expand the program and eventually make it available to all of its 165,000 customers depending on the results of the pilot program. Columbia of Virginia is the first company in Virginia to file tariffs to support such a program.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Columbia of Virginia's 1995 rate case settlement provided for a separate proceeding to consider capacity release and off-system sales proposals. A hearing on these issues was held in September 1996, and the Hearing Examiner issued a report in March 1997, recommending approval of Columbia of Virginia's capacity release and off-system sales pilot incentive program. In October 1997, the VSCC issued an order which permits Columbia of Virginia to retain a portion of capacity release proceeds once a benchmark has been reached, but disallowed any retention from off-system sales proceeds. Columbia of Virginia filed a petition for rehearing and reconsideration. On November 4, 1997, the VSCC granted partial reconsideration of its order by extending the capacity release incentive pilot through the end of 1997, rather than ending it in October 1997, as provided for by the original order. All other aspects of the petition for rehearing were denied.

Columbia of Kentucky received permanent approval for the Weather Normalization Adjustment (WNA) which had been on pilot status the previous three years. The WNA alleviates the impact of unusual weather on customers' bills and Columbia of Kentucky's revenues. Columbia of Maryland has a similar program in effect.

Voluntary Severance Program

In September 1997, Columbia of Pennsylvania and Columbia of Maryland announced a voluntary severance program available to their 990 employees. The program was the result of a review of the two companies' operations which identified some opportunities to better position the companies in their evolving business climate. As a result of this program, in the fourth quarter of 1997 Columbia of Pennsylvania and Columbia of Maryland recorded a total of \$4.3 million of costs representing severance and benefit costs related to the voluntary severance of 79 management, professional, manual and administrative/technical employees that elected to participate in the program. The majority of those participating left the companies by the end of November 1997.

Capital Expenditure Program

In addition to maintaining and upgrading facilities to assure safe, reliable and efficient operation, Distribution's 1997 capital expenditure program of approximately \$159 million (an increase of \$11 million from 1996) included expenditures of \$64 million for extending service to new areas and \$75 million for replacement and betterment projects. The estimated 1998 capital expenditure program amounts to approximately \$162 million, including \$65 million for new business and development and \$83 million for replacement and betterment projects.

Gas Supply

Distribution's gas supply portfolio, with its large storage component, has the reliability and flexibility to accommodate the impact of weather variations on traditional customer demand as well as provide opportunities to increase revenues through off-system sales and other incentive programs. Off-system sales are sales or other transactions conducted outside of Distribution's traditional market. For 1997, Distribution had off-system sales of 45.4 Bcf. This was a significant increase of 34.6 Bcf from 1996 due to Columbia of Ohio's 1997 rate settlement and indirectly to the mild weather in the first quarter of 1997 that enabled Distribution to aggressively market its storage volumes in March 1997. Columbia of Ohio, Columbia of Pennsylvania, Columbia of Maryland and Columbia of Kentucky now have incentive programs in place that have been approved by their respective regulatory commissions that provide for the sharing of the proceeds from off-system sales with customers. For 1997, these programs resulted in pre-tax income for Distribution of \$26.1 million, an increase of \$11.6 million from 1996. Columbia of Ohio's 1996 rate settlement permits the retention of up to \$51 million from off-system sales over three years subject to an earnings limitation.

Proceeds from releasing unused pipeline capacity totaled \$19.5 million for 1997, up \$5.3 million from 1996. Distribution can retain a portion of the proceeds that exceeds established capacity release incentive benchmarks. All other proceeds are recorded as a reduction to gas costs and the benefit is passed through to customers. In 1997, Columbia of Ohio, Columbia of Pennsylvania and Columbia of Maryland were able to retain capacity release proceeds amounting to \$3.1 million. As residential and small commercial transportation programs develop into widespread practice and marketers take assignment of the LDCs' pipeline capacity contracts, earnings from these non-traditional services may decline.

Environmental Matters

Distribution's primary environmental issues relate to 15 former manufactured gas plant sites. Investigations or remedial activity are currently underway at seven sites and additional site investigation may be required at some of the remaining sites. To the extent Distribution's site investigations have been conducted, remediation plans

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

developed and any responsibility for remediation action established, the appropriate liabilities have been recorded. Regulatory assets have been recorded for a majority of these costs as rate recovery has been allowed or is anticipated.

Throughput

For 1997, Distribution's throughput of 526.7 Bcf decreased 27.5 Bcf from 1996 due to warmer weather, an overall reduction in customer usage and a decrease in industrial throughput of 7 Bcf due to the ten-month strike at a large industrial customer. Higher demand for power generation and competitive natural gas prices in 1997 contributed to a 10.1 Bcf increase in transportation volumes.

Distribution's 1996 throughput of 554.2 Bcf reflected an increase of 15.1 Bcf over 1995 as residential and commercial sales rose 19 Bcf due to colder weather. Transportation volumes decreased 7.1 Bcf reflecting reduced requirements for power generation and increased pressure from competitive fuels due to higher natural gas prices.

Net Revenues

Net revenues for 1997 of \$898.1 million were down \$8.6 million from 1996. The decrease included the effect of 4% warmer weather that reduced net revenues by approximately \$23 million. This decrease was partially offset by an increase in revenues for a 1997 regulatory settlement that Columbia of Ohio reached with interested parties, together with income for certain gas management activities that Columbia of Ohio retained under the terms of its 1996 rate settlement and revenues generated by higher rates.

In 1996, net revenues of \$906.7 million were up \$85.2 million over 1995 due to 5% colder weather which contributed \$26 million to the increase in net revenues, while higher rates produced \$21.2 million and Columbia of Ohio's retention of revenues from certain gas management activities resulted in another \$10.7 million. The remaining net revenue increase was attributable to increased deliveries to higher margin transportation customers, customer growth and higher revenue surcharges that were offset in expense.

Operating Income

Operating income for 1997 for Distribution of \$224.2 million decreased by \$1.8 million from 1996 as the decrease in net revenues was partially offset by a \$6.8 million decrease in operating expenses. The decrease in operating expenses is primarily the result of a reduced level of restructuring costs recorded in 1997 compared to 1996 and the implementation over the last two years of cost conservation measures and operating efficiencies. Tempering these improvements was costs related to a risk management program for Columbia of Ohio and Columbia of Kentucky designed to mitigate potential adverse effects of certain future business risks. Other taxes rose \$11.4 million primarily due to increases in gross receipts taxes and property taxes.

In 1996, operating income of \$226 million increased \$62.4 million as the increase in net revenues was partially offset by an increase of \$22.8 million in operating expenses, primarily due to increased restructuring costs of \$21.1 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

STATEMENTS OF OPERATING INCOME FROM DISTRIBUTION OPERATIONS (UNAUDITED)

Year Ended December 31 (in millions)	1997	1996	1995
NET REVENUES			
Sales revenues	\$2,153.1	\$2,007.9	\$1,677.8
Less: Cost of gas sold	1,385.6	1,206.4	952.2
Net Sales Revenues	767.5	801.5	725.6
Transportation revenues			
Less: Associated gas costs	143.2	119.8	105.3
	12.6	14.6	9.4
Net Transportation Revenues	130.6	105.2	95.9
Net Revenues	898.1	906.7	821.5
OPERATING EXPENSES			
Operation and maintenance	441.0	463.0	443.0
Depreciation	78.2	74.4	70.9
Other taxes	154.7	143.3	144.0
Total Operating Expenses	673.9	680.7	657.9
OPERATING INCOME	\$ 224.2	\$ 226.0	\$ 163.6

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

DISTRIBUTION OPERATING HIGHLIGHTS

	1997	1996	1995	1994	1993
CAPITAL EXPENDITURES (\$ in millions)	159.5	148.4	151.8	151.4	117.8
THROUGHPUT (Bcf)					
Sales					
Residential	190.9	209.4	196.6	189.7	194.7
Commercial	72.7	85.7	79.5	80.8	83.4
Industrial and Other	4.2	10.3	7.1	9.7	14.2
Total Sales	267.8	305.4	283.2	280.2	292.3
Transportation	258.9	248.8	255.9	232.5	217.5
Total Throughput	526.7	554.2	539.1	512.7	509.8
Off-System Sales	45.4	10.8	7.5	0.3	-
Total Sold and Transported	572.1	565.0	546.6	513.0	509.8
SOURCES OF GAS FOR THROUGHPUT (Bcf)					
Sources of Gas Sold					
Spot market*	295.0	298.7	210.4	235.3	142.3
Producers	35.7	47.9	70.9	67.5	56.9
Pipelines	-	-	-	-	118.4
Storage withdrawals (injections)	4.0	(20.8)	23.6	(14.0)	(6.7)
Company use and other	(21.5)	(9.6)	(14.2)	(8.3)	(18.6)
Total Sources of Gas Sold	313.2	316.2	290.7	280.5	292.3
Gas received for delivery to customers	258.9	248.8	255.9	232.5	217.5
Total Sources	572.1	565.0	546.6	513.0	509.8
CUSTOMERS					
Sales					
Residential	1,769,647	1,815,269	1,794,800	1,764,968	1,737,609
Commercial	168,413	173,689	172,114	167,067	164,037
Industrial and Other	2,340	2,285	2,265	2,312	2,302
Total Sales Customers	1,940,400	1,991,243	1,969,179	1,934,347	1,903,948
Transportation	93,923	12,804	6,789	6,520	5,282
Total Customers	2,034,323	2,004,047	1,975,968	1,940,867	1,909,230
DEGREE DAYS	5,736	5,975	5,692	5,530	5,677

* Reflects volumes under purchase contracts of less than one year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

EXPLORATION AND PRODUCTION OPERATIONS

Acquisitions

On August 7, 1997, Columbia Resources acquired Alamco, a gas and oil production company that operates in the Appalachian Basin, for \$101 million. Under the agreement, holders of Alamco received \$15.75 per share of common stock. The combined companies at the start of 1998 are producing approximately 125 million cubic feet (Mmcf) of natural gas per day, making Columbia Resources one of the largest natural gas and oil producers in the Appalachian Basin. This acquisition provides contiguous assets that give Columbia Resources a major presence in north-central West Virginia, southern Kentucky and northern Tennessee with proved reserves of nearly 811 billion cubic feet of gas equivalent (Bcfe).

During the first quarter of 1998, Columbia Resources purchased producing assets and undeveloped acreage in Ontario, Canada for approximately \$3.6 million (U.S. dollars). These assets consist of 26 producing wells and approximately 5,000 undeveloped acres.

Market Conditions

Although gas prices fluctuated considerably in 1997, gas prices were still generally lower than 1996 prices. In January 1997, gas deliveries averaged approximately \$4.79 per Mcf in the Appalachian area but have steadily decreased throughout the year, reflecting the impact of warmer weather and ample storage inventory. Columbia Resources' natural gas prices averaged \$2.63 per Mcf in 1997, compared with \$2.84 per Mcf in 1996.

Fluctuations in gas prices can cause significant variations in revenues for the exploration and production (E&P) segment. To diminish the impact of these price swings and help stabilize revenues, Columbia Resources uses gas commodity futures and options contracts as well as swap agreements to hedge the price risk for a portion of its production.

To lessen the impact of market price volatility, Columbia Resources has secured an average price of \$3.02 per Mcf for approximately 60% of its natural gas production through October 1998 through a gas marketing affiliate. The gas marketing affiliate in turn, as part of its normal course of business, hedged these positions in the marketplace. Additional hedge transactions for 1998 production may be executed in the future to reduce Columbia Resources' remaining exposure to market price fluctuations.

Gathering Facilities

On September 1, 1997, Columbia Transmission transferred to Columbia Resources certain gathering facilities for \$23 million. Approximately 70% of Columbia Resources' production flows through this system.

Sale of Coal Assets

In December 1997, Columbia Resources sold its coal assets located in southern West Virginia for \$20.1 million that resulted in an improvement to income of approximately \$6 million after-tax. The sale involved underground reserves containing more than 300 million tons of low-sulfur, steam quality coal reserves.

Exploration and Drilling Program

Columbia Resources participated in the drilling of 131 gross wells of which 82% were successful. In total, 1997 reserves increased 161.6 Bcfe, or 25%, over 1996. This increase included the acquisition of Alamco that contributed approximately 95 Bcfe as well as the results of a series of successful exploratory wells in New York. Total proven reserves as of December 31, 1997, were estimated at 810.7 Bcfe. For 1998, Columbia Resources expects natural gas production to reach approximately 51 Bcf, an increase of 47% from 1997.

Capital Expenditure Program

In order to meet its drilling objectives, Columbia Resources' capital expenditure program for 1998 is approximately \$86 million. This investment will support development of traditional Appalachian prospects as well as continue definition in deeper horizons, such as upstate New York. Included in the \$136 million program for 1997 was \$101 million for the acquisition of Alamco. Not reflected in the 1997 program was an additional \$23 million for the purchase of gathering facilities from Columbia Transmission. Columbia Resources continues to pursue opportunities to expand its operations which may include additional capital expenditures for acquisitions that are not reflected in the current estimate for 1998, which primarily reflects drilling efforts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Production

Gas production in 1997 increased 3% to 34.7 Bcf over 1996 due to the acquisition of Alamco as well as production shut-ins during 1996 resulting from facility problems at Columbia Transmission's Kanawha Extraction Plant. From 1995 to 1996, gas production volumes decreased 49% to 33.6 Bcf reflecting the sale of Columbia's southwest gas and oil subsidiary, Columbia Gas Development Corporation (Columbia Development). After adjusting for this sale, gas production was essentially unchanged.

Oil and liquids produced was down 25% from 1996 to 210,000 barrels largely due to Columbia Resources' sale of a production field in December 1996. In 1996, production was down 2.6 million barrels to 281,000 barrels compared to 1995 due to the sale of Columbia Development.

Operating Revenues

Operating revenues for 1997 were \$113.3 million, an increase of \$8.8 million from 1996, primarily for a reclassification in the recording of gathering activities. The recovery of gathering costs is now reflected in revenues with costs associated with gathering activities included as an operating expense; therefore, the change in reporting has no impact on operating income. Previously, gathering activities were shown net of associated expenses. After adjusting for gathering revenues, total operating revenues increased \$1.9 million primarily due to a \$4.1 million first quarter 1997 improvement related to cash received from a contract buyout by a cogeneration facility. In addition, volumes increased 3% over the prior period adding \$3.2 million to operating revenues. These improvements were offset by the impact of lower prices and reduced oil and liquids production. The weaker natural gas prices reflected the impact of warmer weather and ample storage inventory. Columbia Resources' average gas sales price for 1997 was \$2.63 per Mcf, down more than 7% from last year. Operating revenues of \$104.5 million in 1996 were down \$76.1 million from 1995 due to the sale of Columbia Development at year-end 1995.

Operating Income

Operating income of \$30.9 million for 1997 reflected a small improvement of \$900,000 from the prior year. The increase in operating revenues was largely offset by higher operation and maintenance expense due primarily to additional costs associated with the acquisition of Alamco. From 1995 to 1996, operating income increased by \$26.3 million to \$30 million primarily reflecting higher average gas prices as well as lower operating expenses resulting from the sale of Columbia Development and reengineering initiatives.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

STATEMENTS OF OPERATING INCOME FROM EXPLORATION AND PRODUCTION OPERATIONS (UNAUDITED)

Year Ended December 31 (in millions)	1997	1996	1995
OPERATING REVENUES			
Gas	\$109.5	\$ 99.1	\$134.4
Oil and liquids	3.8	5.4	46.2
Total Operating Revenues	113.3	104.5	180.6
OPERATING EXPENSES			
Operation and maintenance	45.7	37.0	79.6
Depreciation and depletion	27.6	28.8	86.9
Other taxes	9.1	8.7	10.4
Total Operating Expenses	82.4	74.5	176.9
OPERATING INCOME	\$ 30.9	\$ 30.0	\$ 3.7

EXPLORATION AND PRODUCTION OPERATING HIGHLIGHTS*

	1997	1996	1995	1994	1993
CAPITAL EXPENDITURES (\$ in millions)	158.7	12.1	86.8	101.6	95.1
PROVED RESERVES					
Gas (Bcf)	800.5	644.5	599.5	683.8	697.0
Oil and Liquids (000 barrels)	1,700	774	1,651	12,255	12,792
PRODUCTION					
Gas (Bcf)	34.7	33.6	65.4	66.7	71.5
Oil and Liquids (000 barrels)	210	281	2,849	3,611	3,603
AVERAGE PRICES					
Gas (\$ per Mcf)**	2.63	2.84	1.96	2.18	2.28
Oil and Liquids (\$ per barrel)	17.99	19.07	16.17	15.09	16.17

* Years 1993 through 1995 include operating results from Columbia Development, which was sold effective December 31, 1995.

**Includes the effect of hedging activities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

MARKETING, PROPANE AND POWER GENERATION OPERATIONS

During 1997, the Marketing, Propane and Power Generation segment was involved in several transactions designed to help achieve Columbia's goal to increase its nonregulated operations' contribution to consolidated results. Columbia Energy Services acquired PennUnion, an energy-marketing subsidiary of Pennzoil and signed an agreement to purchase and market Kerr-McGee Corporation's (Kerr-McGee) offshore natural gas production. In addition, Commonwealth Propane, Inc. (Commonwealth Propane) purchased the assets of Supertane Gas Corporation (Supertane). Each of these transactions is discussed more fully below.

Energy Marketing Operations

As utility regulations provide for a more open and competitive environment, LDCs are beginning to unbundle services, thereby creating an opportunity for Columbia Energy Services and other marketing companies to provide natural gas and other services to retail customers. In this new environment, LDCs will substantially reduce their merchant function and primarily become a transporter of natural gas. Marketing companies are positioned to provide cost-effective gas supplies and will assume this merchant role. The LDC customers may benefit from reduced utility costs. Pilot programs underway in Ohio and other states have demonstrated that there is substantial demand for these services and that this market has significant potential for growth.

Columbia Energy Services provides gas and electricity supply, fuel management and transportation-related services to a diverse customer base, including cogenerators, local distribution companies, industrial plants, commercial businesses, joint marketing partners and residential customers.

On June 30, 1997, Columbia Energy Services purchased PennUnion for approximately \$14.75 million, subject to certain working capital and other adjustments. Including the PennUnion operations, Columbia Energy Services' trading volumes are nearly 4 Bcf per day. A portion of Columbia Energy Services' marketing volumes is represented by a contract committing Columbia Energy Services to purchase most of Pennzoil's U.S. natural gas production of approximately 585 Mmcf per day at certain index prices. This contract is for a four-year period.

Effective May 1, 1997, Columbia Energy Services began purchasing and marketing Kerr-McGee's offshore natural gas production of approximately 250 Mmcf per day totaling 90 Bcf a year. The marketing alliance will continue for three years. Columbia Energy Services will manage all of Kerr-McGee's U.S. natural gas marketing activities including scheduling, nominating and balancing pipeline transportation as well as providing financial risk management services.

Columbia Energy Services has taken several other initiatives to become a full service provider of energy and energy-related services. During the fourth quarter of 1997, Columbia Energy Services began marketing electricity through its recently formed wholly-owned subsidiary, Columbia Power Marketing Corporation. A ten-year natural gas supply contract between Columbia Energy Services and a municipal gas authority was also signed in December 1997. Effective January 1, 1998, Columbia Energy Services will sell the municipal gas authority approximately 12 Mmcf of natural gas per day. As part of the agreement, in December 1997, the municipal gas authority made an advance payment of \$71.6 million for such future deliveries.

In October 1997, Columbia Energy Services and Honeywell Inc. (Honeywell) formed an alliance to sell a targeted set of products and services in a seven-state region for use in homes, commercial buildings and industrial facilities. Columbia Energy Services and Honeywell began offering these products and services in the fourth quarter of 1997, which include indoor air quality solutions, ventilating and air conditioning systems, energy strategy consulting as well as control automation solutions to reduce energy consumption.

Columbia Energy Services needs to strengthen its infrastructure to accommodate the significant increase in the volume of business and to improve its business practices. Such needed improvements are of the type associated with "start-up" enterprises, and include the hiring of additional skilled personnel, the development of new policies and procedures for trading, risk management, credit, contract administration and documentation, as well as new computer systems for accounting, marketing management and customer service. During 1997, \$4 million was spent on these activities, and an additional \$29 million is expected to be spent in 1998, of which approximately \$27 million will be capital expenditures. It is anticipated, however, that continued management attention to Columbia

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Energy Services' infrastructure and continued expenditures and improvements will be required as the company builds and expands its business.

Propane

During the first quarter of 1997, Commonwealth Propane purchased the assets of Supertane of Ranson, West Virginia. This acquisition added 7,700 customers and approximately 3.9 million gallons annually. In October 1997, Commonwealth Propane was merged into Columbia Propane Corporation (Columbia Propane) to increase administrative and operating efficiencies. Columbia Propane serves approximately 97,000 customers in parts of 10 eastern states and the District of Columbia. Total propane sales for 1997 were 70.9 million gallons, a decrease of 5 million gallons from 1996, resulting from significantly warmer weather in the first quarter of 1997 and lower spot market sales activity.

In February 1998, Columbia Propane purchased certain assets of Central Jersey Propane, Inc. (Ace Gas) located in New Jersey. Ace Gas sells approximately 2.2 million gallons of propane annually to 3,600 customers.

Power Generation

Columbia is part owner in three cogeneration projects through its subsidiary, Columbia Electric Corporation (Columbia Electric), formerly TriStar Ventures Corporation. These facilities produce both electricity and useful thermal energy fueled principally by natural gas. Columbia Electric holds various interests in these facilities that have a total capacity of approximately 250 megawatts. Columbia Electric's primary focus has been the development, ownership and operation of natural gas-fueled cogeneration power plants selling electric power to local electric utilities under long-term contracts.

On January 29, 1998, Columbia Electric and Westcoast Energy Inc. signed a joint ownership agreement to develop three natural gas-fired electricity generating plants by 2001. In total, the three plants will provide approximately 1000 megawatts of electricity using approximately 160 Mmcf per day of natural gas. Total development costs are estimated at \$600 million to \$700 million. The exact locations of the plants have yet to be determined.

Commodity Hedging

Columbia Energy Services and Columbia Propane use commodity futures contracts and basis swaps to hedge prices on commitments for natural gas and power purchases and sales and propane inventories. Internal guidelines prohibit speculative trading.

Columbia Energy Services uses these financial transactions to provide acceptable margins on the purchase and resale of natural gas in future months. When Columbia Energy Services makes a sale for future delivery without having natural gas committed to that sale, it purchases derivative instruments to reduce the risk of increasing prices prior to purchasing the natural gas to fulfill the sales obligation. Conversely, Columbia Energy Services may use derivative instruments to mitigate price volatility on future sales if it has contracted for natural gas supplies before obtaining a firm sales commitment. In late 1997, Columbia Energy Services began trading of electric power.

Columbia Propane purchases propane and places it in storage for future sale. Columbia Propane sells commodity futures on a portion of its inventory at the time of purchase to hedge against decreasing prices.

Net Revenues

Net revenues for 1997 increased \$9.9 million over last year to \$66.5 million. Columbia Energy Services' volumes more than tripled the 1996 level to 888.4 Bcf, reflecting the significant growth of Columbia Energy Services' operations including the effect of the PennUnion acquisition and the agreement with Kerr-McGee. Much of the growth came from increased lower-margin wholesale sales that was necessary to expand Columbia Energy Services' base for future retail growth. The impact of higher sales volumes was nearly offset by a decrease in average margins that resulted in a total net gas marketing revenue increase of \$4.3 million. Net revenues for Columbia Propane increased \$2.3 million due to 11% higher margins, which were partially offset by a 7% decrease in volumes resulting from the warmer than normal weather experienced in the first quarter of 1997 and lower spot market sales activity. Columbia Electric recorded \$2.6 million in revenues for assuming Binghamton Partnership's gas transportation contract with Columbia Transmission.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Net revenues for 1996 increased \$9.6 million over 1995 due to the favorable effect of colder weather which increased volumes for both Columbia Energy Services and Columbia Propane. Net revenues in 1996 from power generation activities were essentially unchanged from 1995.

Operating Income (Loss)

An operating loss of \$2.9 million was recorded in 1997 compared to a gain of \$12.5 million in the prior period. The increase in net revenues was more than offset by higher operating costs associated with expanding the gas marketing operations and building its infrastructure. As mentioned previously, these costs include, among other things, implementing operational improvements and adding additional staff. Operation and maintenance expense for Columbia Propane also increased over the prior period due to increased staffing levels resulting from its purchase of the assets of Supertane. In addition, start-up costs for new services led to higher operating costs.

In 1996, operating income increased a modest \$300,000 over 1995 to \$12.5 million. The increase in Columbia Energy Services' net revenues was partially offset by higher operating expenses due largely to the start-up costs for new services.

STATEMENTS OF OPERATING INCOME FROM MARKETING, PROPANE AND POWER GENERATION (UNAUDITED)

Year Ended December 31 (in millions)	1997	1996	1995
NET REVENUES			
Gas marketing revenues	\$ 2,186.8	\$ 728.0	\$ 237.9
Less: Products Purchased	2,166.0	711.5	230.8
Net Gas Marketing Revenues	20.8	16.5	7.1
Propane revenues			
Propane revenues	77.9	80.7	65.1
Less: Products purchased	43.2	48.3	35.5
Net Propane Revenues	34.7	32.4	29.6
Other revenues	11.0	7.7	10.3
Net Revenues	66.5	56.6	47.0
OPERATING EXPENSES			
Operation and maintenance	61.2	38.8	29.7
Depreciation	5.2	3.1	2.6
Other taxes	3.0	2.2	2.5
Total Operating Expenses	69.4	44.1	34.8
OPERATING INCOME (LOSS)	\$ (2.9)	\$ 12.5	\$ 12.2

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

MARKETING, PROPANE AND POWER GENERATION OPERATING HIGHLIGHTS

	1997	1996	1995	1994	1993
CAPITAL EXPENDITURES (\$ in millions)	15.0	6.3	6.6	4.7	9.7
PROPANE					
Gallons sold (millions)	70.9	75.9	68.9	68.5	58.1
Customers	96,954	79,650	74,308	68,218	67,895
MARKETING SALES (Bcf)	888.4	259.6	131.6	111.2	81.5

BANKRUPTCY MATTERS

On November 28, 1995, Columbia and its wholly-owned subsidiary, Columbia Transmission, emerged from Chapter 11 protection of the Federal Bankruptcy Code under the jurisdiction of the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court). Both Columbia and Columbia Transmission had operated under Chapter 11 protection since July 31, 1991. In settlement of its prepetition obligations, Columbia distributed approximately \$3.6 billion to its creditors, which included \$2.3 billion in payment of Columbia's prepetition debt and approximately \$1 billion of interest on that debt. Certain residual unresolved bankruptcy-related matters are still within the jurisdiction of the Bankruptcy Court.

Columbia Transmission's approved plan of reorganization (Plan) was guaranteed financially by Columbia, and provided a total distribution of approximately \$3.9 billion to its creditors of which approximately \$1.2 billion represented producer claims. Columbia Transmission's Plan provided that producers who rejected settlement offers contained in Columbia Transmission's Plan may continue to litigate their claims under the Bankruptcy Court-approved claims estimation procedures and receive the same percentage payout on their allowed claims, when and if ultimately allowed, as received by the settling producers. Columbia Transmission's Plan further provided that since the actual distribution percentage for all producer claims, which would not be less than 68.875% or greater than 72.5%, cannot be determined until the total amount of producer claims is essentially established, 5% of the maximum amount (based on a 72.5% payout) to be distributed to producer claimants for allowed claims and to Columbia for unsecured debt will be withheld until the total has been determined. An interim distribution could be made if Columbia Transmission determines at any time that the holdback amount exceeds parameters stated in its Plan.

Columbia believes adequate reserves have been established for resolution of the remaining producer claims.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is in Item 7 on page 19.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Columbia Energy Group:

We have audited the accompanying consolidated balance sheets of Columbia Energy Group (a Delaware corporation, the "Corporation") and subsidiaries as of December 31, 1997 and 1996, and the related statements of consolidated income, cash flows and common stock equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule listed in the Index to Item 8, Financial Statements and Supplementary Data, is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York
January 23, 1998

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED INCOME
Columbia Energy Group and Subsidiaries

Year Ended December 31 (in millions, except per share amounts)	1997	1996	1995*
OPERATING REVENUES			
Gas sales	\$ 4,286.7	\$ 2,679.4	\$ 1,929.0
Transportation	531.5	491.3	487.7
Other	235.4	183.3	218.5
Total Operating Revenues	5,053.6	3,354.0	2,635.2
OPERATING EXPENSES			
Products purchased	3,138.1	1,481.1	820.6
Operation	862.1	854.5	826.7
Maintenance	100.2	111.4	116.6
Depreciation and depletion	221.3	215.2	270.0
Other taxes	222.5	213.6	211.1
Total Operating Expenses	4,544.2	2,875.8	2,245.0
OPERATING INCOME	509.4	478.2	390.2
OTHER INCOME (DEDUCTIONS)			
Interest income and other, net (Note 14)	40.4	26.1	(58.2)
Interest expense and related charges** (Note 15)	(157.6)	(166.8)	(988.4)
Reorganization items, net (Note 2)	-	-	13.4
Total Other Income (Deductions)	(117.2)	(140.7)	(1,033.2)
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	392.2	337.5	(643.0)
Income taxes (Note 7)	118.9	115.9	(210.7)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	273.3	221.6	(432.3)
Extraordinary item (Note 1)	-	-	71.6
NET INCOME (LOSS)	\$ 273.3	\$ 221.6	\$ (360.7)
EARNINGS (LOSS) PER SHARE OF COMMON STOCK (based on average shares outstanding)			
Before extraordinary item	\$ 4.93	\$ 4.12	\$ (8.57)
Extraordinary item	-	-	1.42
Earnings (Loss) Per Share of Common Stock	\$ 4.93	\$ 4.12	\$ (7.15)
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.90	\$ 0.60	\$ -
AVERAGE COMMON SHARES OUTSTANDING (thousands)	55,405	53,792	50,477

* Reference is made to Note 2 of Notes to Consolidated Financial Statements.

** Due to the bankruptcy filings, interest expenses of \$982.9 million, including the write-off of unamortized discounts on debentures, was recorded in the fourth quarter of 1995. (See Note 2 of Notes to Consolidated Financial Statements.)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

CONSOLIDATED BALANCE SHEETS
Columbia Energy Group and Subsidiaries

ASSETS as of December 31 (in millions)	1997	1996
PROPERTY, PLANT AND EQUIPMENT		
Gas utility and other plant, at original cost	\$ 7,368.9	\$ 6,994.4
Accumulated depreciation (3,344.5)	(3,481.5)	
Net Gas Utility and Other Plant	3,887.4	3,649.9
Gas and oil producing properties, full cost method		
Accumulated depletion (146.4)	660.2	502.8
	(196.0)	
Net Gas and Oil Producing Properties	464.2	356.4
Net Property, Plant and Equipment	4,351.6	4,006.3
INVESTMENTS AND OTHER ASSETS		
Accounts receivable - noncurrent	1.6	6.3
Unconsolidated affiliates	74.1	69.0
Assets held for sale	1.5	12.1
Other	8.0	15.9
Total Investments and Other Assets	85.2	103.3
CURRENT ASSETS		
Cash and temporary cash investments	28.7	49.8
Accounts receivable		
Customer (less allowance for doubtful accounts of \$18.7 and \$16.2, respectively)	815.8	562.2
Other	52.7	35.4
Gas inventory	226.8	237.8
Other inventories - at average cost	35.6	45.1
Prepayments	107.7	73.8
Regulatory assets	64.6	63.4
Underrecovered gas costs	41.4	104.7
Prepaid property tax	80.8	81.1
Exchange gas receivable	189.0	114.6
Other	64.6	68.0
Total Current Assets	1,707.7	1,435.9
REGULATORY ASSETS	400.9	410.1
DEFERRED CHARGES	66.9	49.0
TOTAL ASSETS	\$6,612.3	\$6,004.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

CAPITALIZATION AND LIABILITIES as of December 31 (in millions)	1997	1996
COMMON STOCK EQUITY		
Common stock, par value \$10 per share - issued 55,495,460 and 55,263,659 shares, respectively	\$ 554.9	\$ 552.6
Additional paid in capital	754.2	743.2
Retained earnings	482.7	259.3
Unearned employee compensation	(1.1)	(1.5)
Total Common Stock Equity	1,790.7	1,553.6
LONG-TERM DEBT (Note 10)	2,003.5	2,003.8
Total Capitalization	3,794.2	3,557.4
CURRENT LIABILITIES		
Short-term debt (Note 11)	328.1	250.0
Accounts and drafts payable	536.7	348.6
Accrued taxes	140.9	142.6
Accrued interest	29.4	14.8
Estimated rate refunds	68.4	114.0
Estimated supplier obligations	73.9	115.1
Overrecovered gas costs	84.6	--
Transportation and exchange gas payable	89.2	95.4
Other	367.0	371.1
Total Current Liabilities	1,718.2	1,451.6
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes - noncurrent	618.4	557.7
Investment tax credits	35.6	37.1
Postretirement benefits other than pensions	148.8	172.3
Regulatory liabilities	41.3	44.5
Other	255.8	184.0
Total Other Liabilities and Deferred Credits	1,099.9	995.6
COMMITMENTS AND CONTINGENCIES (Notes 2, 3 and 13)	--	--
TOTAL CAPITALIZATION AND LIABILITIES	\$6,612.3	\$6,004.6

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED CASH FLOWS
Columbia Energy Group and Subsidiaries

Year Ended December 31 (in millions)	1997	1996	1995*
OPERATING ACTIVITIES			
Net income (loss)	\$ 273.3	\$221.6	\$ (360.7)
Adjustments for items not requiring (providing) cash:			
Depreciation and depletion	221.3	215.2	270.0
Deferred income taxes	29.3	78.1	66.1
Earnings from equity investment, net of distributions	2.4	9.2	(15.5)
Reapplication of SFAS 71	--	--	(71.6)
Loss on sale of Columbia Gas Development Corp.	--	--	77.8
Interest expense settled at emergence	--	--	702.9
Payment of Chapter 11 liabilities	--	--	(1,169.1)
Other - net**	32.2	(5.7)	(75.2)
Changes in components of working capital:			
Accounts receivable	(199.2)	(64.3)	99.7
Income tax refunds	--	271.5	--
Gas inventory	11.0	(65.6)	58.0
Prepayments	(33.9)	(16.3)	12.3
Accounts payable	186.8	160.8	38.3
Accrued taxes	(30.4)	(85.5)	(314.9)
Accrued interest	(1.2)	(71.5)	(56.5)
Estimated rate refunds	(45.6)	17.8	(56.6)
Estimated supplier obligations	(41.2)	(63.2)	(44.0)
Under/Overrecovered gas costs	147.9	(146.3)	(18.0)
Exchange gas receivable/payable	(89.5)	46.9	17.4
Other working capital	5.0	(25.7)	35.5
Net Cash From Operations	468.2	477.0	(804.1)
INVESTMENT ACTIVITIES			
Capital expenditures	(420.5)	(316.4)	(411.0)
Proceeds received on the sale of Columbia Gas Development Corp.	--	187.8	--
Purchase of Alamco, Inc.	(99.4)	--	--
Sale of partnership interest	--	2.7	10.9
Other investments - net	(9.1)	--	21.9
Net Investment Activities	(529.0)	(125.9)	(378.2)
FINANCING ACTIVITIES			
Retirement of prepetition debt obligations	--	--	(637.3)
Retirement of preferred stock	--	(400.0)	--
Dividends paid	(49.9)	(32.1)	--
Issuance of common stock	11.7	250.8	1.8
Issuance (repayment) of short-term debt	77.1	(88.9)	338.9
Other financing activities	0.8	(39.1)	5.1
Net Financing Activities	39.7	(309.3)	(291.5)
Increase (Decrease) in cash and temporary cash investments	(21.1)	41.8	(1,473.8)
Cash and temporary cash investments at beginning of year	49.8	8.0	1,481.8
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	\$ 28.7	\$ 49.8	\$ 8.0
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 145.4	\$ 150.9	\$ 284.9
Cash paid for income taxes (net of refunds)	\$ 90.7	\$ (93.4)	\$ 42.3

* Reference is made to Note 2 of Notes to Consolidated Financial Statements.

** Includes changes in Liabilities Subject to Chapter 11 Proceedings of (\$2,842) million in 1995.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

STATEMENTS OF CONSOLIDATED COMMON STOCK EQUITY

Columbia Energy Group and Subsidiaries

(in millions, except for share amounts)	Common Stock*			Additional Paid In Capital	Retained Earnings	Unearned Employee Compensation	Total
	Shares Outstanding (000)	Par Value	Treasury Stock				
Balance at December 31, 1994	50,563	\$505.6	\$ -	\$601.9	\$ 430.5	\$(70.0)	\$1,468.0
Net loss					(360.7)		(360.7)
Termination of LESOP	(1,416)		(57.8)	(7.9)		70.0	4.3
Common stock issued:							
Long-term incentive plan	57	0.6		1.8			2.4
Balance at December 31, 1995	49,204	506.2	(57.8)	595.8	69.8	-	1,114.0
Net income					221.6		221.6
Cash dividends:							
Common stock					(32.1)		(32.1)
Common stock issued:							
Public offering	5,750	43.3	57.8	137.5			238.6
Long-term incentive plan	310	3.1		9.9		(1.5)	11.5
Balance at December 31, 1996	55,264	552.6	-	743.2	259.3	(1.5)	1,553.6
Net income					273.3		273.3
Cash dividends:							
Common stock					(49.9)		(49.9)
Common stock issued:							
Long-term incentive plan	232	2.3		11.0		0.4	13.7
BALANCE AT DECEMBER 31, 1997	55,496	\$554.9	\$ -	\$754.2	\$ 482.7	\$(1.1)	\$1,790.7

* 100 million shares authorized at December 31, 1997, 1996, 1995 and 1994 - \$10 par value.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Columbia Energy Group (Columbia) and all subsidiaries. All intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the 1996 and 1995 financial statements to conform to the 1997 presentation.

B. CASH AND CASH EQUIVALENTS. Columbia considers all highly liquid short-term investments to be cash equivalents.

C. EARNINGS PER SHARE. In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This statement supersedes APB Opinion No. 15, "Earnings per Share" and simplifies the computation of earnings per share (EPS). Primary EPS is replaced with a presentation of Basic EPS. Basic EPS includes no dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. In addition, Fully Diluted EPS is replaced with Diluted EPS. Diluted EPS reflects the potential dilution if certain securities are converted into common stock. This statement requires dual presentation of Basic and Diluted EPS by entities with complex capital structures and also requires restatement of all prior-period EPS data presented. SFAS No. 128 is effective for financial statements for both interim and annual periods after December 15, 1997.

Under the requirements of SFAS No. 128, Columbia's Diluted EPS are as follows:

Diluted EPS Computation	1997	1996	1995
Net Income (Loss) (\$ in millions)	273.3	221.6	(360.7)
Denominator (thousands)			
Average Common shares outstanding	55,405	53,792	50,477
Dilutive potential common shares - options	329	159	
--(a)			
Diluted Average Common Shares	55,734	53,951	50,477
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK	\$ 4.90	\$ 4.11	\$ (7.15)

(a) The addition of 57 dilutive potential common shares would be antidilutive in the 1995 computation of Diluted EPS, and therefore, are not included.

D. BASIS OF ACCOUNTING FOR RATE-REGULATED SUBSIDIARIES. Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated public utilities account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it reasonable to assume that such rates can be charged and collected. Columbia's transmission subsidiaries reapplied the provisions of SFAS No. 71 during 1995, concurrent with the emergence from Chapter 11 protection. As a result of reapplying SFAS No. 71, an extraordinary gain of \$71.6 million was recorded in 1995. Columbia's gas distribution subsidiaries have been following and continue to follow the accounting and reporting requirements of SFAS No. 71.

Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

Information for assets and liabilities subject to utility regulation and rate determination are as follows:

	Transmission Subsidiaries		Distribution Subsidiaries	
At December 31 (\$ in millions)	1997	1996	1997	1996
ASSETS				
Environmental costs	125.8	123.6	7.4	7.1
Postemployment and postretirement benefits	64.6	69.4	121.8	129.9
Percent of income plan receivables	--	--	22.6	17.9
Retirement income plan costs	21.7	21.4	19.2	20.2
Regulatory effects of accounting for income taxes	--	--	50.8	49.0
Post in-service carrying charges	--	--	18.3	18.9
Underrecovered gas costs	--	--	41.4	104.7
Other	7.4	9.9	5.9	6.3
TOTAL REGULATORY ASSETS	219.5	224.3	287.4	354.0
LIABILITIES				
Rate refunds and reserves	55.9	95.5	12.5	18.4
Overrecovered gas costs	--	--	84.6	--
Regulatory effects of accounting for income taxes	19.5	21.5	24.1	25.2
Other	7.5	6.8	--	--
TOTAL REGULATORY LIABILITIES	82.9	123.8	121.2	43.6

E. GAS UTILITY AND OTHER PLANT AND RELATED DEPRECIATION. Property, plant and equipment (principally utility plant) are stated at original cost. The cost of gas utility and other plant of the rate regulated subsidiaries includes an allowance for funds used during construction (AFUDC). Property, plant and equipment of other subsidiaries includes interest during construction (IDC). The 1997 before-tax rates for AFUDC and IDC were 7.09% and 7.05%, respectively. The 1996 and 1995 before-tax rates for AFUDC were 6.15% and 8%, respectively, and for IDC were 6.9% and 9.6%, respectively.

Improvements and replacements of retirement units are capitalized at cost. When units of property are retired, the accumulated provision for depreciation is charged with the cost of the units and the cost of removal, net of salvage. Maintenance, repairs and minor replacements of property are charged to expense. Columbia's subsidiaries provide for annual depreciation on a composite straight-line basis.

The average annual depreciation rate for the transmission subsidiaries' property was 2.5% in 1997, 2.5% in 1996 and 2.6% in 1995. The average annual depreciation rate for the distribution subsidiaries' property was 3.2% in 1997, 3.2% in 1996 and 3.1% in 1995.

F. GAS AND OIL PRODUCING PROPERTIES. Columbia's subsidiary engaged in exploring for and developing gas and oil reserves follows the full cost method of accounting. Under this method of accounting, all productive and nonproductive costs directly identified with acquisition, exploration and development activities including certain payroll and other internal costs are capitalized. Depletion for the subsidiary is based upon the ratio of current-year revenues to expected total revenues, utilizing current prices, over the life of production. If costs exceed the sum of the estimated present value of the net future gas and oil revenues and the lower of cost or estimated value of unproved properties, an amount equivalent to the excess is charged to current depletion expense. Gains or losses on the sale or other disposition of gas and oil properties are normally recorded as adjustments to capitalized costs, except in the case of a sale of a significant amount of properties, which would be reflected in the income statement.

On April 30, 1996, Columbia sold Columbia Gas Development Corporation (Columbia Development) effective December 31, 1995, to a privately held exploration and development firm for approximately \$200 million. The sale included approximately 196 billion cubic feet equivalent of proved gas and oil reserves, located in the Gulf of Mexico and on-shore continental United States. An after-tax loss of \$54.8 million was recorded in the fourth quarter of 1995. An adjustment to the loss of \$5.6 million after-tax was recorded during 1996, which increased income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

G. COMMODITY HEDGING. In accordance with Statement of Financial Accounting Standards No. 80, "Accounting for Futures Contracts," a futures contract qualifies as a hedge if the commodity to be hedged is exposed to price risk and the futures contract reduces that exposure and is designated as a hedge. Subsidiaries in Columbia's production, marketing and propane operations engage in commodity hedging activities to help minimize the risk of market fluctuations associated with the price of natural gas production, propane inventories and commitments for natural gas purchases and sales. The hedging objectives include assurance of stable and known minimum cash flows, fixing favorable prices and margins when they become available and participation in any long-term increases in value. Under internal guidelines, speculative positions are prohibited.

Columbia's exploration and production company utilizes futures, options and swaps on futures as well as commodity price swaps and basis swaps. Futures help manage commodity price risk by fixing prices for future production volumes. The options provide a price floor for future production volumes and the opportunity to benefit from any increases in prices. Swaps are negotiated and executed over-the-counter and are structured to provide the same risk protection as futures and options. Basis swaps are used to manage risk by fixing the basis or differential that exists between a delivery location index and the commodity futures prices. These positions are hedged in the marketplace through a gas marketing affiliate.

Columbia's marketing and propane operations utilize futures contracts and basis swaps to help assure adequate margins on the purchase and resale of natural gas as well as protecting the value and margins of its propane inventories.

Premiums paid for option and swap agreements are included as current assets in the consolidated balance sheet until they are exercised or expire. Margin requirements for natural gas and propane futures are also recorded as current assets. Unrealized gains and losses on all futures contracts are deferred on the consolidated balance sheet as either current assets or other deferred credits. Realized gains and losses from the settlement of natural gas futures, options and swaps are included in revenues or products purchased as appropriate, concurrent with the associated physical transaction. Realized gains and losses from the settlement of propane futures contracts are included in products purchased. The cash flows from commodity hedging are included in operating activities in the consolidated statement of cash flows.

Columbia and its subsidiaries are exposed to credit losses in the event of nonperformance by the counterparties to its various hedging contracts. Management has evaluated such risk and believes that overall business risk is significantly reduced as a result of these hedging contracts which are primarily with major investment grade financial institutions or their affiliates.

H. GAS INVENTORY. The distribution subsidiaries' gas inventory is carried at cost on a last-in, first-out (LIFO) basis. The excess of replacement cost of gas inventory at December 31, 1997, over the carrying value is approximately \$25 million. Liquidation of LIFO layers related to gas delivered by the distribution subsidiaries does not affect income since the effect is passed through to customers as part of purchased gas adjustment tariffs.

I. INCOME TAXES AND INVESTMENT TAX CREDITS. Columbia and its subsidiaries record income taxes to recognize full interperiod tax allocations. Under the liability method of income tax accounting, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Previously recorded investment tax credits of the regulated subsidiaries were deferred and are being amortized over the life of the related properties to conform with regulatory policy.

J. ESTIMATED RATE REFUNDS. Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflect management's current judgment of the ultimate outcome of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

K. DEFERRED GAS PURCHASE COSTS. Columbia's gas distribution subsidiaries defer differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable tariff provisions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

L. REVENUE RECOGNITION. Columbia's gas distribution subsidiaries bill customers on a monthly cycle billing basis. Revenues are recorded on the accrual basis including an estimate for gas delivered but unbilled at the end of each accounting period.

M. ENVIRONMENTAL EXPENDITURES. Columbia accrues for costs associated with environmental remediation obligations when such costs are probable and can be reasonably estimated, regardless of when expenditures are made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and, when possible, site-specific costs. The reserve is adjusted as further information is developed or circumstances change. Rate-regulated subsidiaries applying SFAS No. 71 establish a regulatory asset on the balance sheet to the extent that future recovery of environmental remediation costs is expected through the regulatory process.

N. USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. STOCK OPTIONS AND AWARDS. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123), effective in 1996, encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. This statement requires the value of the option at the date of grant be amortized over the vesting period of the option. Columbia continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25).

For stock appreciation rights, compensation expense is recognized on the aggregate difference between the market price of Columbia's stock and the option price. Restricted stock awards are recorded as deferred compensation in the consolidated balance sheet at the date of grant. Compensation expense related to restricted stock awards is recognized ratably over the vesting period. Compensation expense related to contingent stock awards is recognized over the vesting period. Columbia sets the grant price of the options at the market price of the stock on the grant date. In accordance with APB Opinion No. 25, expense related to stock options is measured by the difference between the grant price and Columbia's stock price on the measurement date (grant date). Since the difference between the grant price and Columbia's stock price on the measurement date is de minimis, no compensation expense is recognized. When stock options are exercised, common stock is credited for the par value of shares issued and additional paid in capital is credited with the consideration in excess of par.

2. EMERGENCE FROM CHAPTER 11 OF THE BANKRUPTCY CODE

A. GENERAL. On November 28, 1995, Columbia and its wholly owned subsidiary, Columbia Gas Transmission Corporation (Columbia Transmission), emerged from Chapter 11 protection of the Federal Bankruptcy Code under the jurisdiction of the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court). Both Columbia and Columbia Transmission had operated under Chapter 11 protection since July 31, 1991. In settlement of its prepetition obligations, Columbia distributed approximately \$3.6 billion to its creditors, which included \$2.3 billion in payment of Columbia's prepetition debt and approximately \$1 billion of interest on that debt. Certain residual unresolved bankruptcy-related matters are still within the jurisdiction of the Bankruptcy Court.

Columbia Transmission's approved plan of reorganization (Plan) was guaranteed financially by Columbia, and provided a total distribution of approximately \$3.9 billion to its creditors of which approximately \$1.2 billion represented producer claims. Columbia Transmission's Plan provided that producers who rejected settlement offers contained in Columbia Transmission's Plan may continue to litigate their claims under the Bankruptcy Court-approved claims estimation procedures and receive the same percentage payout on their allowed claims, when and if ultimately allowed, as received by the settling producers. Columbia Transmission's Plan further provided that since the actual distribution percentage for all producer claims, which would not be less than 68.875% or greater than 72.5%, can not be determined until the total amount of producer claims is essentially established, 5% of the maximum amount (based on 72.5% payout) to be distributed to producer claimants for allowed claims and to Columbia for unsecured debt will be withheld until the total has been determined. An interim distribution could be

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

made if Columbia Transmission determines at any time that the holdback amount exceeds the parameters stated in the Plan.

Columbia believes adequate reserves have been established for resolution of the remaining producer claims and the payment of any amounts ultimately due to producers with respect to the 5% holdback.

B. REORGANIZATION ITEMS. During the bankruptcy period, Columbia and Columbia Transmission earned interest income on cash accumulated from the suspension of payments related to prepetition liabilities and incurred expenses associated with professional fees and other related services.

Listed below is a summary of Reorganization Items included in the income statements.

(\$ in millions)	1997	1996	1995
Interest income on accumulated cash	--	--	93.5
Professional fees and related expenses (28.2)	--	--	
Other reorganization items, net (51.9)	--	--	
REORGANIZATION ITEMS, NET	--	--	13.4

3. REGULATORY MATTERS

A. In April 1997, the Federal Energy Regulatory Commission (FERC) approved a settlement of Columbia Transmission's rate case which provides for an increase in revenues to recover the higher costs incurred since 1991. The settlement also provides an opportunity for the recovery of Columbia Transmission's net investment in gathering and certain gas processing facilities and incorporates a revised version of a partial settlement filed by Columbia Transmission on August 30, 1996. That element of the settlement provides for the continued use of system-wide rates, commonly known as postage-stamp rates, in lieu of zone rates. Under the settlement, Columbia Transmission will not place a new rate case into effect prior to February 1, 2000. The settlement allows Columbia Transmission to retain the gain from the 1996 sale of base gas from one of its storage fields, as well as certain future base gas sales. Specifically, the settlement permits Columbia Transmission to retain approximately 95% of the first \$60 million pre-tax gain from future base gas sales. After that level has been reached, Columbia Transmission would share equally with customers any gain from such sales. The settlement rates became effective June 1, 1997 and an after-tax improvement of \$12.4 million was recorded in the second quarter of 1997 to reflect the terms of the settlement, including the base gas sale.

Excluded from the settlement is the environmental cost issue which will be addressed in the second phase of the proceeding scheduled for hearings during the fall of 1998. Columbia Transmission continues to collect approximately \$18 million per year, subject to refund, for environmental costs.

B. In its September 1993 order on Columbia Transmission's and Columbia Gulf Transmission Company's (Columbia Gulf) FERC Order No. 636 (Order 636) compliance filings, the FERC initiated a proceeding concerning Columbia Gulf's transportation service to Columbia Transmission. It directed Columbia Gulf to show cause as to why it had not filed for FERC's abandonment authorization to reduce capacity on its mainline facilities. In a response to the FERC in late 1993, Columbia Gulf asserted that no abandonment authorization was required. The FERC issued an order on August 8, 1997, approving a Stipulation and Consent Agreement that required Columbia Gulf to conduct a 30-day open season on additional firm mainline capacity up to its certificated design capacity. The open season concluded on December 15, 1997 and resulted in requested capacity that exceeded Columbia Gulf's certificated level. Challenges by certain of Columbia Gulf's customers to the terms of the approved settlement remain pending at the FERC.

C. On March 1, 1995, Columbia Transmission filed with the FERC to recover \$39 million of transportation costs that were billed to Columbia Transmission by Columbia Gulf. Various parties protested Columbia Transmission's filing, and challenged among other things Columbia Transmission's ability to recover costs attributable to Columbia Gulf.

In an April 2, 1996 order, the FERC ruled that Columbia Gulf was entitled to bill its prudently incurred costs, under its cost-of-service tariff, to

Columbia Transmission, and that Columbia Transmission was entitled to flow such amounts through to its customers. The FERC ruled that approximately \$19 million of the Columbia Gulf charges were recoverable by Columbia Transmission, subject to a general FERC audit, which has been completed with no

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

adjustment to the amounts billed. With respect to the remaining \$20 million of costs associated with environmental issues, Columbia Transmission and the parties to the case filed an uncontested offer of settlement in May 1997 that provided for a resolution of the environmental issues. On June 25, 1997, the FERC approved the settlement which provided for a refund of \$4 million, including interest. Previously established reserves were sufficient and the settlement had no effect on 1997 operating income. In addition, the settlement establishes a method for determining whether Columbia Gulf may seek recovery of future environmental costs incurred at specific sites and provides for the withdrawal of a number of related court appeals.

D. On October 31, 1996, Columbia Gulf filed a general rate case with the FERC. The filing, which reflected a proposed increase in revenues of approximately \$9.6 million, was accepted by the FERC subject to refund and conditions, pending the outcome of a hearing. On April 29, 1997, Columbia Gulf filed revised rates reflecting changes required by the FERC's acceptance order. The revised rates, which reflect an increase in revenues of approximately \$8.1 million, went into effect on May 1, 1997, subject to refund. An agreement in principle settling all issues and rate levels was reached in January 1998. The FERC staff and active parties in the proceeding have unanimously agreed to the terms of the settlement. Management believes that if the settlement is approved as presently written, it will not have a material impact on Columbia's financial statements.

E. Columbia Gas of Ohio, Inc.'s (Columbia of Ohio) 1994 rate case settlement provided for a review of the company's revenue requirements by a collaborative group composed of diverse interested parties (Collaborative), for the purpose of evaluating the need to adjust base rates at May 1, 1996. The review process was completed and the Public Utilities Commission of Ohio (PUCO) approved an amendment to the 1994 rate case settlement in December 1996. The settlement permitted Columbia of Ohio to retain up to \$51 million of revenues over the next three years subject to a sharing mechanism, under which a portion of any earnings above an industry composite allowed return on equity would be shared with customers. The revenues retained were primarily from historic off-system sales transactions completed or agreed to prior to August 31, 1996. This revenue mechanism was in lieu of a base rate increase to customers. Additionally, the settlement provided that Columbia of Ohio would not implement any increase in base rates before January 1, 1999.

On January 7, 1998, the PUCO approved a second amendment to the 1994 rate case settlement. The new amendment establishes a five-year funding mechanism that will enable Columbia of Ohio to expand its Customer CHOICE(R) transportation program for residential and small commercial customers statewide in 1998. The funding mechanism authorizes Columbia of Ohio to use off-system sales, capacity release revenues and fees collected from marketers to offset the cost of transition capacity that may be generated by expansion of the Customer CHOICE(R) program, while simultaneously providing Columbia of Ohio with an opportunity to retain some of the capacity release and off-system sales revenue. The amendment also extends by one year, to January 1, 2000, Columbia of Ohio's commitment not to implement any increase in base rates. The amendment gives Columbia of Ohio the responsibility to manage the transition pipeline capacity costs that will arise as residential and small commercial customers elect to acquire the commodity directly from marketers participating in the Customer CHOICE(R) program, and revenue streams from a number of sources including off-system sales and capacity releases with which to manage this responsibility. Columbia of Ohio has accepted the risk for up to 11% of the transition capacity costs to the extent these costs exceed the revenue streams available to offset them. However, if after the conclusion of the five-year program the revenues from these sources more than offset the transition capacity costs, then customers and Columbia of Ohio will share the credit balance, 75% to the customers and 25% to Columbia of Ohio.

4. RESTRUCTURING ACTIVITIES

In 1996, Columbia's subsidiaries completed a top-down review of their management structure and operations in an effort to streamline their organizations and improve customer service. The studies examined all aspects of Columbia's operations including the configuration and location of its management.

The transmission subsidiaries restructuring project focused on all processes within the companies operations. These efforts resulted in streamlined business functions, improved organizational structures and reduced staff levels.

The distribution segment initiated a restructuring of its headquarters' operations as part of its ongoing efforts to provide enhanced customer service and to achieve greater operating efficiencies. These initiatives, which are designed to streamline and enhance customer service, are continuing. Additional studies are underway in all of the

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

distribution segment's service territories that may affect the field organizations in functions other than customer service and may result in additional positions being eliminated, with additional expense being recorded.

In the third quarter of 1996, Columbia Energy Group Service Corporation, Columbia LNG Corporation and Columbia Electric Corporation (Columbia Electric), formerly TriStar Ventures Corporation, implemented restructuring programs and moved their corporate headquarters from Wilmington, Delaware to Reston, Virginia.

As a result of these restructuring programs, it is estimated that 1,412 management, professional, administrative and technical positions will ultimately be eliminated. In 1996, Columbia recorded a pre-tax charge of \$60.9 million in operating expense representing severance and related benefit costs, relocation costs, the establishment of the new corporate center and costs related to the sale of the former headquarters building. This charge included \$52.7 million of estimated termination benefits. Partially offsetting these charges was a \$6 million pre-tax gain on the sale of the former headquarters building. During 1997, Columbia recorded pre-tax charges of \$31.1 million in operating expense representing additional severance and related benefits costs, and additional relocation costs. This charge included \$18.9 million of estimated termination benefits. As of December 31, 1997, approximately 1,300 employees have been terminated as a result of these programs. At December 31, 1997, the consolidated balance sheet reflected an accrual of \$16.8 million associated with restructuring activities.

5. COMMODITY HEDGING ACTIVITIES

A. GAS PRODUCTION. At December 31, 1997, there were 31 open future equivalent contracts representing a notional quantity amounting to 0.3 Bcf of natural gas production through February 1998, at an average price of \$2.45 per Mcf. A total of \$0.2 million of unrealized gains have been deferred on the consolidated balance sheet with respect to these open contracts. Additional production is hedged in the marketplace through a gas marketing affiliate. At December 31, 1996, there were 1,490 open contracts representing a notional quantity amounting to 14.9 Bcf of natural gas production through October 1997, at an average price of \$2.32 per Mcf. A total of \$1.2 million of unrealized gains were deferred on the consolidated balance sheet with respect to those open contracts at December 31, 1996.

During the year ended December 31, 1997, \$0.2 million of gains were realized on the settlement of natural gas option and swap contracts entered into to hedge the value of gas production. During the year ended December 31, 1996, \$3.7 million of losses were realized on the settlement of these contracts. These gains and losses are largely offset when the production is sold in the cash market.

B. MARKETING, PROPANE AND POWER GENERATION. At December 31, 1997, there were 27,423 open future equivalent contracts maturing from January 1998 to January 2008 representing a notional quantity amounting to 272.2 Bcf of natural gas. A total of \$1.14 million of unrealized losses have been deferred on the consolidated balance sheet with respect to these open contracts. At December 31, 1996, there were 5,173 open contracts through October 1998, representing a notional quantity amounting to 51.7 Bcf of natural gas. A total of \$0.8 million of unrealized gains were deferred on the consolidated balance sheet with respect to these open contracts at December 31, 1996. These unrealized losses are largely offset by gains which are realized when the products are sold.

During the year ended December 31, 1997, \$4.7 million of gains were recognized in operating income on the settlement of natural gas swap contracts. During the year ended December 31, 1996, \$6.3 million of losses were realized on the settlement of natural gas futures, options and swap contracts. Gains and losses on propane and gas marketing hedging activities were offset by amounts realized from the sale of the underlying products.

6. NEW ACCOUNTING STANDARDS

A. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement establishes standards for reporting and display of comprehensive income and its components in the financial statements. SFAS No. 130 will be effective for financial statements for both interim and annual periods beginning after December 15, 1997 and reclassification of financial statements for earlier periods presented will be required for comparative purposes. Columbia will adopt this statement on January 1, 1998. Columbia does not anticipate the adoption of this statement will have a significant impact on the consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

B. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). This statement establishes standards for reporting information about operating segments in annual financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997, and in the initial year of application, comparative information for earlier years is to be restated. Columbia will adopt this statement on January 1, 1998, and does not expect a significant impact on present segment reporting.

7. INCOME TAXES

The components of income tax expense are as follows:

Year Ended December 31 (\$ in millions)	1997	1996	1995
INCOME TAXES			
Current			
Federal	82.4	30.4	
(284.8)			
State	7.2	7.5	8.1
Total Current	89.6	37.9	
(276.7)			
Deferred			
Federal	50.4	64.6	69.7
State	(19.6)	14.9	
(2.2)			
Total Deferred	30.8	79.5	67.5
Deferred Investment Credits	(1.5)	(1.5)	
(1.5)			
Income taxes included in income before extraordinary item	118.9	115.9	
(210.7)			
Deferred taxes related to extraordinary item	--	--	36.9
TOTAL INCOME TAXES	118.9	115.9	
(173.8)			

Total income taxes are different from the amount that would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference are as follows:

Year Ended December 31 (\$ in millions)	1997		1996		1995	
Book income (loss) before income taxes and extraordinary item	392.2		337.5		(643.0)	
Tax expense (benefit) at statutory Federal income tax rate	137.3	35.0%	118.1	35.0%	(225.0)	35.0%
Increases (reductions) in taxes resulting from:						
State income taxes, net of Federal income tax benefit	(8.1)	(2.1)	16.7	4.9	4.7	(0.7)
Estimated non-deductible expenses	0.7	0.2	0.9	0.3	9.0	(1.4)
Effect of change in deferred taxes previously provided	(1.9)	(0.5)	(4.0)	(1.2)	--	--
Adjustment to prior year's tax provision due to pending settlement	(3.2)	(0.8)	(11.3)	(3.4)	--	--
Other	(5.9)	(1.5)	(4.5)	(1.3)	0.6	(0.1)
INCOME TAXES BEFORE EXTRAORDINARY ITEM	118.9	30.3%	115.9	34.3%	(210.7)	32.8%

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of Columbia's net deferred tax liability are as follows:

At December 31 (\$ in millions)	1997	1996

Deferred tax liabilities		
Property basis differences	655.3	631.5
Gas purchase costs	52.4	94.4
Partnership deferrals	27.5	23.9
Other	39.5	14.6

Gross Deferred Tax Liabilities	774.7	764.4

Deferred tax assets		
Estimated supplier obligations (45.4)	(28.8)	
Alternative minimum tax (46.9)	(0.2)	
Estimated rate refunds (25.0)	(12.5)	
Capitalized inventory overheads (24.3)	(26.7)	
Unbilled utility revenue (23.9)	(23.2)	
Restructuring costs (21.4)	(8.5)	
Postretirement benefits (16.5)	(10.5)	
Environmental liabilities (8.6)	(8.1)	
Tax loss carryforwards (40.1)	(48.7)	
Off-system sales (7.8)	(21.8)	
Other (34.3)	(51.2)	

Gross Deferred Tax Assets (294.2)	(240.2)	

Deferred Tax Asset Valuation Allowance	34.4	34.7

NET DEFERRED TAX LIABILITY*	568.9	504.9

*Includes net current deferred tax assets of \$49.5 million and \$52.8 million reflected in Current Assets for 1997 and 1996, respectively.

As reflected by the valuation allowance in the table above, Columbia had potential tax benefits of \$34.4 million and \$34.7 million at December 31, 1997 and 1996, respectively, which were not recognized in the statements of consolidated income when generated. These benefits resulted from state income tax operating loss carryforwards which are available to reduce future tax liabilities. Management believes there is a risk that certain of these carryforwards may expire unused and therefore, an asset has not been recorded for such future benefits. The expiration of the tax loss carryforward benefits, net of federal taxes, in 1999 is \$2.3 million, in 2000 is \$1.2 million, in 2001 is \$0.4 million, in 2002 is \$0.1 million and beyond is \$44.7 million.

8. PENSION AND OTHER POSTRETIREMENT BENEFITS

A. PENSION PLANS. Columbia has a noncontributory, qualified defined benefit pension plan covering essentially all employees. Benefits are based primarily on years of credited service and employees' highest three-year average annual compensation in the final five years of service. Columbia's funding policy complies with Federal law and tax regulations. Columbia also has a nonqualified pension plan that provides benefits to some employees in excess of the qualified plan's Federal tax limits. Effective 1996, Columbia is reflecting the information presented below as of September 30, rather than December 31. The effect of this change is not material.

The following table shows the components of net pension expense for the qualified and nonqualified plans and the annual contributions for each of the three years:

PENSION COSTS (\$ in millions)	1997	1996	1995
Service cost	28.7	35.0	26.7
Interest cost	67.6	70.7	69.9
Actual return on assets (202.5)	(236.9)	(81.9)	
Net amortization (deferral)	142.3	(5.1)	124.8
NET PENSION EXPENSE	1.7	18.7	18.9
CONTRIBUTIONS	0.0	0.0	1.2

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

The following table provides a reconciliation of the plans' funded status and amounts reflected in Columbia's balance sheet at December 31:

PLAN ASSETS AND OBLIGATIONS (\$ in millions)	1997	1996

Plan assets at fair value	1,164.6	1,033.9

Actuarial present value of benefit obligations:		
Vested benefits	765.8	660.6
Nonvested benefits	60.5	48.7

Accumulated benefit obligation	826.3	709.3
Effect of projected future salary increases	62.6	160.6

PROJECTED BENEFIT OBLIGATIONS	888.9	869.9

Plan assets in excess of projected benefit obligation	275.7	164.0
Unrecognized net gain (281.5)	(390.2)	
Unrecognized prior service cost	48.9	52.6
Unrecognized transition obligation	5.8	7.0

ACCRUED PENSION COST (57.9)	(59.8)	

DISCOUNT RATE ASSUMPTION	7.5%	
8.0%		

ASSET EARNINGS RATE ASSUMPTION	9.0%	
9.0%		

Plan assets consist of primarily equity (international and domestic) and fixed income securities.

The compensation growth rate assumption was revised downward from 5.0% in 1996 to 3.5% for 1997-1999, and 4.5% thereafter. This equates to a weighted average of 4.3% over 15 years. As of December 31, 1997, the discount rate assumption was revised downward to 7.5%. The net effect of these changes was to increase the accumulated benefit obligation and the projected benefit obligation by \$41.7 million and \$34.9 million, respectively.

B. OTHER POSTRETIREMENT BENEFITS. Columbia also provides medical coverage and life insurance to retirees. Essentially all active employees are eligible for these benefits upon retirement after completing ten consecutive years of service after age 45. Normally, spouses and dependents of retirees are also eligible for medical benefits. Effective 1996, Columbia is reflecting the information presented below as of September 30 rather than December 31. The effect of this change is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

The following table shows components of other postretirement costs for each of the three years:

OTHER POSTRETIREMENT COSTS (\$ in millions)	1997	1996	1995
Service Cost	13.0	13.8	11.3
Interest Cost	23.5	22.4	24.1
Actual return on assets (30.0)	(48.3)	(12.5)	
Other, net amortization (deferral)	23.4	(5.4)	16.0
OTHER POSTRETIREMENT COSTS, NET	11.6	18.3	21.4
CONTRIBUTIONS	35.0	39.5	45.6

The following table provides a reconciliation of other postretirement plans' funded status and amounts reflected on Columbia's balance sheet at December 31:

PLAN ASSETS AND OBLIGATIONS (\$ in millions)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	170.5	151.0
Fully eligible active plan participants	50.5	54.5
Other participants	88.8	81.7
Total accumulated postretirement benefit obligation	309.8	287.2
Plan assets at fair value	(242.9)	(179.6)
Accumulated postretirement benefit obligation in excess of plan assets	66.9	107.6
Unrecognized actuarial net gain	129.9	117.5
Less: Fourth quarter contributions	7.4	6.6
ACCRUED POSTRETIREMENT BENEFIT COST	189.4	218.5
DISCOUNT RATE ASSUMPTION	7.5%	8.0%
MEDICAL COST TREND	5.5%	5.5%
ASSET EARNINGS RATE ASSUMPTION*	9.0%	9.0%

*One of the several established medical trusts is subject to taxation which results in an after-tax asset earnings rate that is less than 9%.

Plan assets consist of shares in various equity (international and domestic) and fixed income mutual funds. The assets are held in three trust accounts and one 401(h) account.

The compensation growth rate assumption was revised downward from 5.0% in 1996 to 3.5% for 1997-1999, and 4.5% thereafter. This equates to a weighted average of 4.3% over 15 years. As of December 31, 1997, the discount rate assumption was revised downward to 7.5% from 8.0%. The medical cost trend rate remained at 5.5% for December 31, 1997. The net effect of these changes was a \$13.3 million increase in the accumulated postretirement benefit obligation. A one percent increase in medical inflation trend rates for each future year would have increased the accumulated postretirement benefit obligation by another \$17.0 million and other postretirement costs by \$3.0 million in 1997.

All of Columbia's subsidiaries participate in funding for retiree life insurance benefits, using a voluntary employee beneficiary association (VEBA) trust. Columbia's funding policy is to make annual contributions to this trust, subject to the maximum tax-deductible limit. Contributions of approximately \$3.9 million, and \$3.3 million were made to the retiree life insurance VEBA trust in 1997 and 1996, respectively.

Columbia's regulated subsidiaries participate in funding for retiree medical costs, using two trusts and a 401(h) account. Columbia's non-regulated companies have elected not to fund retiree health care costs, and make contributions to the trust accounts on a pay-as-you-go basis. Contributions of approximately \$31.1 million and \$36.2 million were made to these retiree medical trusts in 1997 and 1996, respectively.

9. LONG-TERM INCENTIVE PLAN

On April 26, 1996, shareholders approved a new Long-Term Incentive Plan (New LTIP). The New LTIP which is effective for ten years, beginning February 21, 1996, provides for the granting of nonqualified stock options and incentive stock options, contingent stock awards, stock appreciation rights and restricted stock awards to officers and

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

key employees. The New LTIP also provides for the granting of nonqualified stock options to outside directors. A total of 3,000,000 shares of Columbia's authorized common stock is available under the New LTIP's provisions.

On April 26, 1996, shareholders approved an incentive compensation plan for outside directors under which they may receive benefits in lieu of a retirement plan and defer current compensation in the form of phantom stock units, which equates the amounts granted to the directors with the performance of Columbia's stock.

Columbia's Long-Term Incentive Plan (LTIP), in effect from 1985 through 1995, provided for the granting of nonqualified stock options, stock appreciation rights and contingent stock awards as determined by the Compensation Committee of the Board of Directors. That committee also had the right to modify any outstanding award. A total of 1,500,000 shares of Columbia's authorized common stock was initially reserved for issuance under the LTIP's provisions.

Stock appreciation rights, which were granted in connection with certain nonqualified stock options, entitle the holders to receive stock, cash or a combination thereof equal to the excess market value over the grant price. Stock options and related stock appreciation rights granted under the LTIP generally have a maximum term of ten years and vest over two to four years.

Transactions for the three years ended December 31, 1997, are as follows:

	Options		Options Price Range
	Without Stock Appreciation Rights	With Stock Appreciation Rights	

Outstanding at December 31, 1994	484,965	156,150	\$
34.30-\$46.68			
Granted	93,000	--	\$
28.99-\$31.05			
Exercised	(33,245)	(6,100)	\$
28.99-\$38.30			
Cancelled	(20,400)	--	\$
34.30-\$46.68			

Outstanding at December 31, 1995	524,320	150,050	\$
28.99-\$46.68			
Granted	100,000	--	\$
48.6875			
Exercised	(209,625)	(66,860)	\$
28.99-\$46.68			
Forfeited	(9,020)	(7,260)	\$
34.30-\$46.68			

Outstanding at December 31, 1996	405,675	75,930	\$
28.99-\$48.6875			
Granted	1,133,350	--	
\$58.375-\$71.0938			
Exercised	(183,138)	(48,790)	\$
28.99-\$63.6875			
Forfeited	(41,962)	(3,240)	\$
34.30-\$63.6875			
=====			
OUTSTANDING AT DECEMBER 31, 1997	1,313,925	23,900	\$
28.99-\$71.0938			
=====			
EXERCISABLE AT DECEMBER 31, 1997	596,824	23,900	\$
28.99-\$63.6875			
=====			

Regarding the stock options granted in 1997, such options vest ratably over three years. Regarding the stock options granted in 1996, 50% of such options vested in 1996 and the other 50% vested in 1997. All of the stock options granted in 1995 had vested in 1995.

The following table shows the weighted average option exercise price information for the three years ended December 31:

	1997	1996	1995

Outstanding at January 1	\$42.88	\$41.31	
\$42.69			
Granted during the year	63.40	48.69	
29.10			
Exercised during the year	44.31	41.07	
35.36			
Forfeited during the year	62.01	44.15	
--			
Cancelled during the year	--	--	
40.61			
OUTSTANDING AT DECEMBER 31	59.37	42.88	
41.31			
EXERCISABLE AT DECEMBER 31	54.70	42.21	
41.31			

In addition to the options, contingent stock awards totaling 27,500 shares were granted to two key executives in 1995. All of these shares vested and 22,820 shares have been issued (net of amounts withheld to pay taxes). In 1996, contingent stock awards totaling 1,500 shares were granted to one key executive and all 1,500 shares vested

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

and were issued during 1996. There were no contingent stock awards granted in 1997. Restricted stock awards totaling 29,785 shares were granted to one key executive in 1996 of which 5,957 shares vested during 1997.

During 1997, 1996 and 1995, \$3.2 million, \$2.1 million and \$1.1 million were expensed for the long-term incentive plans, respectively.

Had compensation cost been determined consistent with the provisions of the SFAS No. 123 fair value method (See Note 1), Columbia's net income would have been \$255.6 million (earnings per share of \$4.61 and diluted earnings per share of \$4.59) in 1997. The effect on Columbia's net income and earnings per share for both 1996 and 1995 would have been immaterial. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 1997, 1996 and 1995: dividend yield of zero percent for 1997 and 1996 to reflect dividend equivalents applicable to awards granted and 1.18% for 1995; expected volatility ranging from 18.41% to 19.29% for 1997 and 20.12% for both 1996 and 1995; risk free interest rates ranging from 5.86% to 6.89% for 1997, 6.58% for 1996, and 5.93% and 6.39% for 1995; and expected lives of seven years. The weighted-average fair market value of options granted were \$24.85, \$19.80 and \$9.72 for 1997, 1996 and 1995, respectively.

10. LONG-TERM DEBT

The long-term debt (exclusive of current maturities) of Columbia and its subsidiaries is as follows:

At December 31 (\$ in millions)	1997
1996	

Columbia Energy Group Debentures	
6.39% Series A due November 28, 2000	311.0
311.0	
6.61% Series B due November 28, 2002	281.5
281.5	
6.80% Series C due November 28, 2005	281.5
281.5	
7.05% Series D due November 28, 2007	281.5
281.5	
7.32% Series E due November 28, 2010	281.5
281.5	
7.42% Series F due November 28, 2015	281.5
281.5	
7.62% Series G due November 28, 2025	281.5
281.5	

Total Debentures	2,000.0
2,000.0	
Subsidiary Debt:	
Capitalized lease obligations	2.7
2.5	
Other	0.8
1.3	
=====	
TOTAL LONG-TERM DEBT	2,003.5
2,003.8	
=====	

The aggregate maturities of long-term debt and capitalized lease obligations during the next five years are as follows:

(\$ in millions)

1998
0.6
1999
0.5
2000
311.3
2001
0.5
2002
281.7

11. SHORT-TERM DEBT AND CREDIT FACILITIES

In November 1995, Columbia entered into an unsecured bank revolving credit agreement (Credit Facility). The Credit Facility is a five-year revolving credit agreement maturing November 2000 and is used to support outstanding commercial paper and to meet other short-term requirements. The Credit Facility had an initial commitment amount of \$1 billion with scheduled quarterly commitment reductions of \$25 million beginning on December 31, 1997. As of December 31, 1997, the commitment amount was \$975 million. Interest rates on borrowings are based upon the London Interbank Offered Rate, Certificate of Deposit rates or other short-term interest rates. Compensating balances are not required. Columbia is required to pay a facility fee on the commitment amount at a rate which is based on Columbia's public debt rating. The facility fee rate as of December 31, 1997 is 0.11%. The Credit Facility contains certain covenants that must be met to borrow funds including

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

restrictions on the incurrence of liens, a maximum leverage ratio, and a minimum consolidated net worth. At December 31, 1997, Columbia had outstanding \$120 million under the Credit Facility at an average interest rate of 6.17%. At December 31, 1996, Columbia had outstanding \$250 million under the Credit Facility at an average interest rate of 6.44%. The maximum credit facility indebtedness outstanding during the year occurred on January 1, 1997 in the amount of \$250 million at an average interest rate of 6.44%.

The Credit Facility provides for the issuance of up to \$100 million of standby letters of credit. At the option of Columbia, an additional \$50 million of the credit facility can be utilized for letters of credit or borrowings. As of December 31, 1997, Columbia had \$42.7 million of letters of credit outstanding under the Credit Facility. Fees for letters of credit issued are calculated at rates that are based on Columbia's public debt rating plus a commission of 0.125% to the issuing bank. At December 31, 1997, fees for letters of credit issued in connection with certain financial obligations were at a rate of 0.19%.

Columbia has an \$850 million commercial paper program authorized and rated by the rating agencies. At December 31, 1997, Columbia had commercial paper outstanding of \$208.1 million (net of discount) at a weighted average interest rate of 6.42%. No commercial paper borrowings were made during 1996. The maximum commercial paper indebtedness outstanding during the year occurred on December 4, 1997, in the amount of \$326.4 million at an average interest rate of 5.97%.

In addition, Columbia had a \$75 million letter of credit outstanding at December 31, 1997, as a guarantee of certain transactions of its wholly owned marketing affiliate.

At December 31, 1997, approximately \$7.5 million of investments were pledged as collateral on outstanding letters of credit related to Columbia's wholly owned insurance captive.

In March 1998, Columbia replaced the Credit Facility with two new unsecured bank revolving credit facilities that total \$1.35 billion (New Credit Facilities). The New Credit Facilities consist of a \$900 million five-year revolving credit facility and a \$450 million 364-day revolving credit facility with a one-year term loan option. The five-year facility will provide for the issuance of up to \$300 million of letters of credit. Interest rates on borrowings under the New Credit Facilities are based upon the London Interbank Offered Rate or Citibank's publicly announced "base rate." Facility fee payments and fees for letters of credit are based upon Columbia's public debt ratings. At Columbia's current rating, the facility fee charged on the \$900 million credit facility is 0.11% and on the \$450 million credit facility is 0.085%.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," extends existing fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the consolidated balance sheets, for which it is practicable to estimate a fair value. For purposes of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value may be based on quoted market prices for the same or similar financial instruments or on valuation techniques, such as the present value of estimated future cash flows using a discount rate commensurate with the risks involved.

As cash and temporary cash investments, current receivables, current payables, and certain other short-term financial instruments are all short-term in nature, their carrying amount approximates fair value. Columbia utilizes standby letters of credit (See Note 11) and does not believe it is practicable to estimate their fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

LONG-TERM INVESTMENTS

Long-term investments include loans receivable (\$3.7 million for 1997 and \$4.0 million for 1996) whose estimated fair values are based on the present value of estimated future cash flows using an estimated rate for similar loans. Long-term investments also include pledged assets of \$7.5 million for 1997, whose estimated fair value is based on the trading value provided by a financial institution. The financial instruments included in long-term investments are primarily reflected in Investments and Other Assets on the consolidated balance sheets. Long-term investments for which it is practicable to estimate fair value had carrying amounts of \$11.2 million and \$4.0 million, and estimated fair values of \$10.8 million and \$3.6 million at December 31, 1997 and 1996, respectively. Long-term investments for which it is not practicable to estimate fair value had carrying amounts of \$4.2 million at December

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

31, 1996. There are no long-term investments for which it is not practicable to estimate fair value at December 31, 1997.

LONG-TERM DEBT

The estimated fair value of Columbia's debentures, including accrued interest, is based on estimates provided by brokers. Long-term debt of \$2,012.9 million and \$2,012.9 million at December 31, 1997 and 1996, have estimated fair values of \$2,051.6 million and \$1,948.1 million, respectively.

13. OTHER COMMITMENTS AND CONTINGENCIES

A. CAPITAL EXPENDITURES. Capital expenditures for 1998 are currently estimated at \$555 million. Of this amount, \$250 million is for transmission and storage operations, \$162 million for distribution operations, \$86 million for exploration and production operations, \$46 million for marketing, propane and power generation operations and \$11 million for Corporate.

B. OTHER LEGAL PROCEEDINGS. Columbia and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on Columbia's consolidated financial position or results of operations.

C. ASSETS UNDER LIEN. Substantially all of Columbia Transmission's properties have been pledged to Columbia as security for debt owed by Columbia Transmission to Columbia.

Columbia Electric Corporation (Columbia Electric), formerly TriStar Ventures Corporation, a wholly owned subsidiary of Columbia, holds indirectly through various Columbia Electric subsidiaries, both general and limited partnership interests in Pedricktown Cogeneration Limited Partnership and Vineland Cogeneration Limited Partnership (the "Partnerships"), which own and operate project-financed non-utility power generation facilities in New Jersey. The assets of the Partnerships, including plant facilities and contract rights, have been pledged as collateral for loans to a bank syndicate in the case of Pedricktown, or to an indenture trustee for the benefit of certain bondholders in the case of Vineland. Columbia Electric's investment in the Partnerships, as of December 31, 1997, amounted to \$17 million.

D. INTERNAL REVENUE SERVICE (IRS) AUDIT. A settlement with the IRS of Columbia's 1991 through 1994 federal income tax returns has been concluded. The field audit for 1995 has been finalized and management believes adequate reserves have been established for issues in the 1995 tax return.

E. OPERATING LEASES. Payments made in connection with operating leases are charged to operation and maintenance expense as incurred. Such amounts were \$62.9 million in 1997, \$60.9 million in 1996 and \$61.6 million in 1995.

Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year are:

(\$ in millions)

1998
30.1
1999
28.2
2000
24.2
2001
22.9
2002
22.4
After
205.5

F. ENVIRONMENTAL MATTERS. Columbia's subsidiaries are subject to extensive federal, state and local laws and regulations relating to

environmental matters. These laws and regulations, which are constantly changing, require expenditures for corrective action at various operating facilities, waste disposal sites and former gas manufacturing sites for conditions resulting from past practices that have subsequently become subject to environmental regulation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

A subsidiary has received notice from the United States Environmental Protection Agency (EPA) that it is among several parties responsible under federal law for placing wastes at a Superfund site. It is sharing in the cost for remediation of this site. Considering known facts, existing laws and possible insurance and rate recoveries, management does not believe the identified Superfund matter will have a material adverse effect on future annual income or on Columbia's financial position.

Columbia's transmission subsidiaries have implemented programs to continually review compliance with existing environmental standards. In addition, the transmission subsidiaries continue to review past operational activities and to formulate remediation programs where necessary. Columbia Transmission is currently conducting assessment, characterization and remediation activity of specific sites under a 1995 EPA Administrative Order by Consent (AOC).

In 1995, Columbia Transmission estimated that the cost of its environmental program under the AOC may range between \$204 million and \$319 million over the life of the program. This estimate was based on a limited amount of actual data available and utilized a variety of assumptions, including: the number of sites to be investigated, characterized and remediated; the location, nature and levels of wastes that will be treated at or disposed of from each site; the amount of time and nature of equipment required for such activities; the appropriate remediation levels and the technology to be utilized; and the frequency with which groundwater contamination might be discovered at sites requiring remediation. The estimate did not include previously identified costs for certain specific activities, aggregating approximately \$50 million, for which Columbia Transmission already had reasonable estimates.

Following an extensive review of assumptions utilized in arriving at the estimate, management concluded that only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5). This conclusion was based upon the fact that the actual characterization and remediation experience of Columbia Transmission was extremely limited and information on environmental conditions at many of the sites or former sites of operations is not yet available. The nature and condition of such sites varies greatly, and any change in any of the numerous assumptions used in the estimate may materially alter the estimated range of costs, with no assurance that actual costs will not exceed amounts specified in the range. Columbia Transmission is unable, at this time, to accurately estimate the time frame and potential costs of all site screening, characterization and remediation. As Columbia Transmission continues its program pursuant to the AOC and additional costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. Moreover, in time, management expects that, as additional work is performed and more facts become available, it will then be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with U. S. Securities and Exchange Commission's Staff Accounting Bulletin No. 92, "Accounting and Disclosure Relating to Loss Contingencies," SFAS No. 5 and American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities."

Columbia Transmission received EPA approval for and completed characterization of 73 major facilities, approximately 2,800 liquid removal points and approximately 900 mercury measurement stations in 1997. In addition, approximately 400 mercury measuring stations were remediated.

Columbia Transmission also continued to conduct assessment and remediation of impacted soils at locations prior to normal construction and maintenance activities under its EPA approved Construction and Operations Work Plan. Columbia Transmission conducted assessments at 160 sites and, based on these assessment results, performed remedial activities in varying degrees at approximately 85 locations.

As a result of these 1997 activities, Columbia Transmission recorded in 1997 an additional liability of \$16.8 million. Actual expenditures of approximately \$17.1 million during 1997 charged to the liability resulted in a remaining liability of \$125.4 million. Columbia Transmission's environmental cash expenditures are expected to be approximately \$18 million in 1998 and up to \$20 million annually until the AOC is satisfied. These expenditures will be charged against Columbia Transmission's previously recorded liability. Consistent with Statement of Financial Accounting Standards No. 71, a regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates. Columbia Transmission continues to pursue recovery of environmental expenditures from its insurance carriers; however, at this time, management is unable to determine the total amount or final disposition of any recovery.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

In addition, predecessor companies of Columbia Transmission may have been involved in the operation of manufactured gas plants. When such plants were abandoned, material used and created in the process was sometimes buried at the site. At this time, Columbia Transmission is unable to determine if it will become liable for any characterization or remediation costs at such sites.

The distribution subsidiaries' (Distribution) primary environmental issues relate to 15 former manufactured gas plant sites. Investigations or remedial activities are currently underway at seven sites and additional site investigations may be required at some of the remaining sites. To the extent Distribution site investigations have been conducted, remediation plans developed and any responsibility for remediation action established, the appropriate liabilities have been recorded. Regulatory assets have also been recorded for a majority of these identified liabilities as rate recovery has been allowed or is anticipated.

The eventual total cost of full future environmental compliance for Columbia is difficult to estimate due to, among other things: (1) the possibility of as yet unknown contamination, (2) the possible effect of future legislation and new environmental agency rules, (3) the possibility of future litigation, (4) the possibility of future designations as a potential responsible party by the EPA and the difficulty of determining liability, if any, in proportion to other responsible parties, (5) possible insurance and rate recoveries, and (6) the effect of possible technological changes relating to future remediation. However, reserves have been established based on information currently available which resulted in a total recorded net liability of approximately \$129.1 million for Columbia at December 31, 1997. As new issues are identified, additional liabilities will be recorded.

It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects most environmental assessment and remediation costs to be recoverable through rates.

14. INTEREST INCOME AND OTHER, NET

Year Ended December 31 (\$ in millions)	1997	1996	1995
Interest income	21.0	13.4	22.8
Sale of Columbia Development (77.8)	--	6.9	
Miscellaneous (3.2)	19.4	5.8	
TOTAL INTEREST INCOME AND OTHER, NET (58.2)	40.4	26.1	

15. INTEREST EXPENSE AND RELATED CHARGES

Year Ended December 31 (\$ in millions)	1997	1996	1995
Interest on emergence, including amortization of discounts on long-term debt	--	--	982.9
Interest on debentures	140.4	140.4	--
Interest on short-term debt	8.2	11.7	15.1
Interest on rate refunds	3.4	3.9	17.7
Interest on prior years' taxes	9.1	8.3	17.6
Allowance for borrowed funds used and interest during construction (52.4)	(3.5)	2.5	
Other interest charges	--	--	7.5
TOTAL INTEREST EXPENSE AND RELATED CHARGES	157.6	166.8	988.4

16. BUSINESS SEGMENT INFORMATION

Columbia is a registered holding company under the Public Utility Holding Company Act of 1935, as amended and derives substantially all of its revenues and earnings from the operating results of its 17 direct subsidiaries. Columbia's subsidiaries are divided into four primary business segments. The transmission and storage segment offers transportation, storage and gas peaking services for local distribution companies and industrial and commercial customers located in northeastern, middle Atlantic, midwestern, and southern states and the District of Columbia. The distribution segment provides natural gas service and transportation for residential, commercial and

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. The exploration and production segment explores for, develops, produces, and markets gas and oil in the United States. The marketing, propane and power generation segment includes the sale of propane at wholesale and retail to customers in eight states, participation in natural gas fueled cogeneration projects and the marketing of natural gas and related energy services to distribution companies, independent power producers and other retail end-users.

The following tables provide information concerning Columbia's major business segments. Revenues include intersegment sales to affiliated subsidiaries, which are eliminated when consolidated. Affiliated sales are recognized on the basis of prevailing market or regulated prices. Operating income is derived from revenues and expenses directly associated with each segment. Identifiable assets include only those attributable to the operations of each segment.

(\$ in millions)	1997	1996	1995
REVENUES			
Transmission and Storage			
Unaffiliated	516.9	456.2	436.0
Intersegment	332.9	354.6	324.3
TOTAL	849.8	810.8	760.3
Distribution			
Unaffiliated	2,283.6	2,120.4	1,780.6
Intersegment	12.7	7.3	2.5
TOTAL	2,296.3	2,127.7	1,783.1
Exploration and Production			
Unaffiliated	44.3	45.5	111.5
Intersegment	69.0	59.0	69.1
TOTAL	113.3	104.5	180.6
Marketing, Propane and Power Generation			
Unaffiliated	2,208.9	731.5	307.1
Intersegment	66.8	84.9	6.2
TOTAL	2,275.7	816.4	313.3
Adjustments and eliminations			
Unaffiliated	(0.1)	0.4	--
Intersegment (402.1)	(481.4)	(505.8)	
TOTAL (402.1)	(481.5)	(505.4)	
CONSOLIDATED	5,053.6	3,354.0	2,635.2

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

(\$ in millions)	1997	1996	1995
<hr/>			
OPERATING INCOME (LOSS)			
Transmission and Storage	264.3	207.8	213.0
Distribution	224.2	226.0	163.6
Exploration and Production	30.9	30.0	3.7
Marketing, Propane and Power Generation	(2.9)	12.5	12.2
Corporate	(7.1)	1.9	
(2.3)			
<hr/>			
CONSOLIDATED	509.4	478.2	390.2
<hr/>			
DEPRECIATION & DEPLETION			
Transmission and Storage	104.3	102.6	103.8
Distribution	78.2	74.4	70.9
Exploration and Production	27.6	28.8	86.9
Marketing, Propane and Power Generation	5.2	3.1	2.6
Adjustments and eliminations	6.0	6.3	5.8
<hr/>			
CONSOLIDATED	221.3	215.2	270.0
<hr/>			
IDENTIFIABLE ASSETS			
Transmission and Storage	2,758.7	2,761.2	2,978.9
Distribution	2,753.5	2,648.3	2,295.7
Exploration and Production	564.6	421.7	412.4
Marketing, Propane and Power Generation	613.2	289.0	125.8
Corporate and unallocated	471.9	504.6	604.6
Adjustments and eliminations	(549.6)	(620.2)	
(360.4)			
<hr/>			
CONSOLIDATED	6,612.3	6,004.6	6,057.0
<hr/>			
CAPITAL EXPENDITURES			
Transmission and Storage	244.9	142.7	172.5
Distribution	159.5	148.4	151.8
Exploration and Production	158.7	12.1	86.8
Marketing, Propane and Power Generation	15.0	6.3	6.6
Corporate	5.3	5.3	4.1
Adjustments and eliminations	(23.1)	--	--
<hr/>			
CONSOLIDATED	560.3	314.8	421.8
<hr/>			

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)**17. QUARTERLY FINANCIAL DATA (UNAUDITED)**

Quarterly financial data does not always reveal the trend of the Columbia's business operations due to nonrecurring items and seasonal weather patterns which affect earnings and related components of operating revenues and expenses.

(\$ in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter

1997				
Operating Revenues	1,527.7	810.7	995.0	1,720.2
Operating Income	256.6	84.3	29.7	138.8
Net Income on Common Stock	162.7(a)	34.9(b)	0.1	75.6(c)
Per Share Amounts				
Earnings Per Share	2.94	0.63	--	1.36
Diluted Earnings Per Share	2.93	0.63	--	1.35

1996				
Operating Revenues	1,203.0	582.4	450.8	1,117.8
Operating Income	278.2	36.0	20.9	143.1
Net Income (Loss) on Common Stock	151.3	8.2(d)	(6.1)(e)	68.2(f)
Per Share Amounts				
Earnings (Loss) Per Share	2.99	0.15	(0.11)	1.24
Diluted Earnings (Loss) Per Share	2.98	0.15	(0.11)	1.23

(a) Includes \$12.8 million reduction in state income tax expense and \$5.5 million gain on deactivation of a storage field.

(b) Includes \$12.4 million from Columbia Transmission's sale of base gas, as agreed to under the terms of Columbia Transmission's rate settlement.

(c) Includes the net income effect of \$6.0 million for the sale of coal assets.

(d) Includes a decrease in net income of \$18.6 million to reflect severance and benefit costs associated with ongoing restructuring activities, partially offset by an increase in net income of \$5.6 million for an adjustment to the loss on the sale of Columbia Development.

(e) Includes a decrease in net income of \$2.5 million to reflect severance and benefit costs associated with ongoing restructuring activities.

(f) Includes a decrease in net income of \$11.1 million to reflect severance and benefit costs associated with ongoing restructuring activities.

18. EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

On August 7, 1997, Columbia Natural Resources, Inc. (Columbia Resources) acquired Alamco, a gas and oil production company operating in the Appalachian Basin. On April 30, 1996, Columbia sold Columbia Development, its wholly owned Southwest exploration and production subsidiary, effective December 31, 1995. The information contained in the following tables includes amounts attributable to the operations and reserves of Alamco for August 7, 1997, through year-end and the operations and reserves of Columbia Development for 1995.

Reserve information contained in the following tables for the U.S. properties is management's estimate, which was reviewed by the independent consulting firm of Ryder Scott Company Petroleum Engineers. Reserves are reported as net working interest. Gross revenues are reported after deduction of royalty interest payments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

RESERVE QUANTITY INFORMATION

Other	Oil and	
Proved Reserves	Gas (Bcf)	Liquids (000 Bbls)
<hr/>		
Reserves as of December 31, 1994	683.8	12,255
Revisions of previous estimate	72.4	(522)
Extensions, discoveries and other additions	53.6	2,668
Production	(65.4)	(2,849)
Sale of reserves-in-place(a)	(144.9)	(9,901)
<hr/>		
Reserves as of December 31, 1995	599.5	1,651
Revisions of previous estimate	78.9	(169)
Extensions, discoveries and other additions	5.5	161
Production	(33.6)	(281)
Sale of reserves-in-place	(5.8)	(588)
<hr/>		
Reserves as of December 31, 1996	644.5	774
Revisions of previous estimate	69.5	(139)
Extensions, discoveries and other additions	33.2	59
Production	(34.7)	(210)
Purchase of reserves-in-place (b)	88.0	1,216
<hr/>		
RESERVES AS OF DECEMBER 31, 1997	800.5	1,700
<hr/>		
Proved developed reserves as of December 31,		
1995	471.6	1,608
1996	518.3	730
1997	653.2	1,330
<hr/>		

(a) Includes the sale of Columbia Development.

(b) Includes the purchase of Alamco.

CAPITALIZED COSTS

(\$ in millions)	1997	1996	1995
CAPITALIZED COSTS AT YEAR END			
Proved properties	628.4	475.4	486.2
Unproved properties (a)	31.8	27.4	30.1
Total capitalized costs			
Accumulated depletion	(196.0)	(146.4)	(141.1)
NET CAPITALIZED COSTS			
COSTS CAPITALIZED DURING YEAR (b)			
Acquisition - Unproved properties	0.1	0.7	1.1
Exploration	1.0	2.7	4.3
Development	132.4	8.7	15.5
COSTS CAPITALIZED			
	133.5	12.1	20.9(c)

(a) Represents expenditures associated with properties on which evaluations have not been completed.

(b) Includes internal costs capitalized pursuant to the accounting policy described in Note 1 of Notes to Consolidated Financial Statements of \$1.4 million in 1997, \$0.9 million in 1996 and \$1.7 million in 1995.

(c) Excludes capital expenditures for properties sold.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

OTHER EXPLORATION AND PRODUCTION DATA

	1997	1996	1995
Average sales price per Mcf of gas (\$)(a) 1.96	2.63	2.84	
Average sales price per barrel of oil and other liquids (\$) 16.17	17.99	19.07	
Production (lifting) cost per dollar of gross revenue (\$) 0.27	0.24	0.22	
Depletion rate per dollar of gross revenue (\$) 0.49	0.28	0.29	

(a) Includes the effect of hedging activities.

HISTORICAL RESULTS OF OPERATIONS

(\$ in millions)	Appalachia			Southwest			Total		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Gross revenues									
Unaffiliated	27.4	43.1	46.6	--	--	60.1	27.4	43.1	106.7
Affiliated	69.0	58.8	32.8	--	--	35.9	69.0	58.8	68.7
Production costs	23.3	21.7	21.2	--	--	26.7	23.3	21.7	47.9
Depletion	26.6	28.8	39.5	--	--	47.0	26.6	28.8	86.5
Income tax expense	14.3	15.1	6.5	--	--	7.8	14.3	15.1	14.3
RESULTS OF OPERATIONS	32.2	36.3	12.2	--	--	14.5	32.2	36.3	26.7

Results of operations for exploration and production activities exclude administrative and general costs, corporate overhead and interest expense. Income tax expense is expressed at statutory rates less Section 29 credits.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

Appalachia

-----	Appalachia		
-----	1997	1996	1995
-----	-----	-----	-----
(\$ in millions)	1997	1996	1995
-----	-----	-----	-----
Future cash inflows	2,503.0	2,389.1	1,793.8
Future production costs (606.7)	(719.9)	(715.5)	
Future development costs (166.3)	(182.7)	(165.8)	
Future income tax expense (327.1)	(557.5)	(499.7)	
-----	-----	-----	-----
Future net cash flows	1,042.9	1,008.1	693.7
Less 10% discount	582.2	574.4	377.7
-----	-----	-----	-----
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW	460.7	433.7	316.0
-----	-----	-----	-----

Future cash inflows are computed by applying year-end prices to estimated future production of proved gas and oil reserves. Future expenditures (based on year-end costs) represent those costs to be incurred in developing and producing the reserves. Discounted future net cash flows are derived by applying a 10% discount rate, as required by the Financial Accounting Standards Board, to the future net cash flows. This data is not intended to reflect the actual economic value of Columbia's gas and oil producing properties or the true present value of estimated future cash flows since many arbitrary assumptions are used. The data does provide a means of comparison among companies through the use of standardized measurement techniques.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

A reconciliation of the components resulting in changes in the standardized measure of discounted cash flows attributable to proved gas and oil reserves for the three years ending December 31, follows:

(\$ in millions)	1997	1996	1995
Beginning of year	433.7	316.0	406.3
Gas and oil sales, net of production costs (124.3)	(73.1)	(80.2)	
Net changes in prices and production costs	(107.8)	170.4	132.7
Change in future development costs (49.7)	(16.9)	0.5	
Extensions, discoveries and other additions, net of related costs	51.9	9.4	106.5
Revisions of previous estimates, net of related costs	64.0	90.1	72.5
Sales of reserves-in-place (195.6)	(4.1)	(18.4)	
Purchases of reserves-in-place	67.0	--	--
Accretion of discount	64.3	46.0	55.2
Net change in income taxes (64.9)	(30.5)	(65.3)	
Timing of production and other changes (22.7)	12.2	(34.8)	
END OF YEAR	460.7	433.7	316.0

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (continued)

Schedule II

VALUATION AND QUALIFYING ACCOUNTS

Columbia Energy Group and Subsidiaries
 Year Ended December 31,
 (\$ in Millions)

Description	Beginning Balance	Additions - Charged to			Ending Balance
		Income	Other Accounts (a)	Deductions (b)	
Reserves deducted in the balance sheet from the assets to which they apply:					
Allowance for doubtful accounts					
1997	16.2	29.8	19.8	47.1	18.7
1996	12.3	25.6	17.7	39.4	16.2
1995	11.6	31.6	11.3	42.2	12.3

(a) Reflects reclassifications to a regulatory asset of the uncollectible accounts related to the Percent of Income Plan (PIP) of Columbia Gas of Ohio, Inc.

(b) Principally reflects amounts charged off as uncollectible less amounts recovered.

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has not been a change of accountants nor any disagreements concerning accounting and financial disclosure within the past two years.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information required by this item is contained in Columbia's Proxy Statement related to the 1998 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934 and is incorporated herein by reference.

Information regarding Columbia's current executive officers, is as follows:

OLIVER G. RICHARD III, 45, Chairman, Chief Executive Officer and President of Columbia (since April 28, 1995). Chairman of New Jersey Resources Corporation from 1992 to 1995; President and Chief Executive Officer from 1991 to 1995. President and Chief Executive Officer of Northern Natural Gas Company from 1989 to 1991. Senior Vice President and subsequently Executive Vice President of Enron Gas Pipeline Group from 1987 to 1989. Vice President and General Counsel of Tenggasco, a subsidiary of Tenneco Corporation, from 1985 to 1987. Federal Energy Regulatory Commission Commissioner from 1982 to 1985.

PETER M. SCHWOLSKY, 51, Senior Vice President and Chief Legal Officer of Columbia and Columbia Energy Group Service Corporation since August 1995; Senior Vice President from June 1995 to August 1995. Executive Vice President, Law and Corporate Development, for New Jersey Resources Corporation from 1991 to 1995. Of counsel and then Partner with Steptoe & Johnson from 1986 to 1991.

MICHAEL W. O'DONNELL, 53, Senior Vice President and Chief Financial Officer of Columbia and Columbia Energy Group Service Corporation since October 1993. Senior Vice President and Assistant Chief Financial Officer of Columbia and Columbia Energy Group Service Corporation from 1989 to 1993.

CATHERINE GOOD ABBOTT, 47, Chief Executive Officer and President of Columbia Gas Transmission Corporation and Chief Executive Officer of Columbia Gulf Transmission Company since January 1996. Principal with Gem Energy Consulting, Inc. from 1995 to January 1996. Vice president for various business units of Enron Corporation from 1985 to 1995.

RAY R. KASKEL, 60, Senior Vice President of Columbia Energy Group Service Corporation since April 1997. President and Chief Executive Officer of Enron Liquid Services Corp. from 1993 to April 1997. President and Chief Operating Officer of Enron Europe from 1990 to 1993. Prior to 1990, Mr. Kaskel held various executive positions at Enron Corporation and was President of Terrance Development Corporation.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is contained in Columbia's Proxy Statement related to the 1998 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is contained in Columbia's Proxy Statement related to the 1998 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is contained in Columbia's Proxy Statement related to the 1998 Annual Meeting of Stockholders, to be filed pursuant to Section 14 of the Securities Exchange Act of 1934 and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Exhibits

Reference is made to pages 73 through 75 for the list of exhibits filed as a part of this Annual Report on Form 10-K.

Pursuant to Item 601(b), paragraph (4)(iii)(A) of Regulation S-K, certain instruments representing long-term debt of Columbia or its subsidiaries have not been included as Exhibits because such debt does not exceed 10% of the total assets of Columbia and its subsidiaries on a consolidated basis. Columbia agrees to furnish a copy of any such instrument to the U.S. Securities and Exchange Commission upon request.

Financial Statement Schedules

All of the financial statements and financial statement schedules filed as a part of the Annual Report on Form 10-K are included in Item 8.

Reports on Form 8-K

A report on Form 8-K was filed on December 19, 1997, containing a Press Release issued that day announcing that Columbia Energy Services had begun marketing electricity in addition to natural gas.

Undertaking made in Connection with 1933 Act Compliance on Form S-8

For purposes of complying with the amendments to the rules governing Form S-8 under the Securities Act of 1933, as amended (the Act), Columbia undertakes the following, which is incorporated by reference into the registration statements on Form S-8, Nos. 33-03869 (filed May 16, 1996) and 33-42776 (filed September 13, 1991):

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the questions whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLUMBIA ENERGY GROUP (Registrant)

Dated: March 18, 1998

By: /s/ Oliver G. Richard
III
(Oliver G. Richard III)
Director (Principal
Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 18, 1998	/s/ Oliver G. Richard III Director (Principal Executive Officer)	March 18, 1998	/s/ J. Bennett Johnston J. Bennett Johnston Director
March 18, 1998	/s/ Richard F. Albosta Richard F. Albosta Director	March 18, 1998	/s/ Malcolm Jozoff Malcolm Jozoff Director
March 18, 1998	/s/ Robert H. Beeby Robert H. Beeby Director	March 18, 1998	/s/ William E. Lavery William E. Lavery Director
March 18, 1998	/s/ Wilson K. Cadman Wilson K. Cadman Director	March 18, 1998	/s/ Gerald E. Mayo Gerald E. Mayo Director
March 18, 1998	/s/ Jeffrey W. Grossman Jeffrey W. Grossman Vice President & Controller (Principal Accounting Officer)	March 18, 1998	/s/ Michael W. O'Donnell Michael W. O'Donnell Senior Vice President (Chief Financial Officer)
March 18, 1998	/s/ James P. Heffernan James P. Heffernan Director	March 18, 1998	/s/ Douglas E. Olesen Douglas E. Olesen Director
March 18, 1998	/s/ Karen L. Hendricks Karen L. Hendricks Director	March 18, 1998	/s/ James R. Thomas, II James R. Thomas, II Director
March 18, 1998	/s/ Donald P. Hodel Donald P. Hodel Director	March 18, 1998	/s/ William R. Wilson William R. Wilson Director
March 18, 1998	/s/ Malcolm T. Hopkins Malcolm T. Hopkins Director		

EXHIBIT INDEX (continued)

Reference is made in the two right-hand columns below to those exhibits which have heretofore been filed with the U.S. Securities and Exchange Commission. Exhibits so referred to are incorporated herein by reference.

		Reference	
		File No.	Exhibit
		-----	-----
3-A	- Restated Certificate of Incorporation of The Columbia Gas System, Inc., dated as of November 28, 1995.	1-1098	3-A
3-B	- By-Laws of The Columbia Gas System, Inc., as amended dated November 18, 1987.	1-1098	3-B
3-C *	- Certificate of Ownership and Merger, Merging Columbia Energy Group, Inc. into The Columbia Gas System, Inc.		
4-A	- Indenture between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-S
4-B	- First Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-T
4-C	- Second Supplemental Indenture, between The Columbia Gas System, Inc., and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-U
4-D	- Third Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-V
4-E	- Fourth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-W
4-F	- Fifth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-X
4-G	- Sixth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995.	33-64555	4-Y
4-H	- Seventh Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A., Trustee, dated as of November 28, 1995.	33-64555	4-Z
10-P(a)	- Pension Restoration Plan of The Columbia Gas System, Inc., amended October 9, 1991.	1-1098	10-P
10-Q(a)	- Thrift Restoration Plan of The Columbia Gas System, Inc. dated January 1, 1989.	1-1098	10-Q
10-T	- Agreement and Bridge Agreement dated December 1, 1993, between Columbia Gas Transmission Corporation and Consol Pennsylvania Coal Company.	1-1098	10-T
10-AE	- U.S. Environmental Protection Agency Administrative Order by Consent for Removal Actions for Columbia Gas Transmission Corporation dated September 22, 1994.	1-1098	10-AE
10-AF	- Amended and Restated Indenture of Mortgage and Deed of Trust by Columbia Gas Transmission Corporation to Wilmington Trust Company, dated as of November 28, 1995	1-1098	10-AF

(a) Executive Compensation arrangements filed pursuant to Item 14 of Form 10-K. * Filed herewith.

EXHIBIT INDEX (continued)

		Reference	
		File No.	Exhibit
		-----	-----
10-BB(a)	- Annual Incentive Compensation Plan of The Columbia Gas System, Inc., dated November 16, 1988.	1-1098	10-BB
10-BC(a)	- Employment Agreement between Oliver G. Richard III and The Columbia Gas System, Inc., dated March 15, 1995.	1-1098	10-BC
10-BE(a)	- Employment Agreement between Peter M. Schwolsky and The Columbia Gas System, Inc., dated May 30, 1995.	1-1098	10-BE
10-BF(a)	- Employment Agreement between Catherine Good Abbott and The Columbia Gas System, Inc., dated January 17, 1996.		
10-BU	- Share Sale and Purchase Agreement between The Columbia Gas System, Inc. and Anderson Exploration Ltd. dated November 25, 1991.	1-1098	10-BU
10-BV	- Security Agreement dated as of January 15, 1992, between The Columbia Gas System, Inc. and Anderson Exploration Ltd. and Montreal Trust Company of Canada.	1-1098	10-BV
10-BW	- Kotaneellee Litigation Indemnity Agreement dated as of December 31, 1991, among The Columbia Gas System, Inc. and Columbia Gas Development of Canada Ltd. and Anderson Exploration Ltd.	1-1098	10-BW
10-BX	- Specified Litigation Indemnity Agreement made as of December 31, 1991, among The Columbia Gas System, Inc. and Columbia Gas Development of Canada Ltd. and Anderson Exploration Ltd.	1-1098	10-BX
10-BY(a)	- Columbia Gas Restoration Security Trust Agreement dated June 1, 1991, with Dauphin Deposit Bank and Trust Company.	1-1098	10-BY
10-CA(a)	- The Columbia Gas System, Inc. Retirement Plan for Outside Directors, as amended, August 21, 1991.	1-1098	10-CA
10-CB	- Credit Agreement, dated as of November 28, 1995, among The Columbia Gas System, Inc., certain banks party thereto and Citibank, N.A.	1-1098	10-CB
10-CC	- First Amendment and Supplement to Credit Agreement, dated December 6, 1995	1-1098	10-CC
10-CD *	- Credit Agreement for \$450,000,000, dated March 11, 1998, among Columbia Energy Group and certain banks party thereto and Citibank, N.A. as Administrative and Syndication Agent.		
10-CE *	- Credit Agreement for \$900,000,000, dated March 11, 1998, among Columbia Energy Group and certain banks party thereto and Citibank, N.A. as Administrative and Syndication Agent.		
10-CF *	- Memorandum of Understanding among the Millennium Pipeline Project partners (Columbia Transmission, West Coast Energy, MCN Investment Corp. and TransCanada Pipelines Limited) dated December 1, 1997		
10-CJ	- Amended and Restated Agreement of Cove Point LNG Limited Partnership between Columbia LNG and PEPCO Energy Company, Inc. dated January 27, 1994.	1-1098	10-CJ
10-CM	- Plan of Reorganization for Columbia Gas Transmission Corporation as filed with the United States Bankruptcy Court for the District of Delaware on January 18, 1994.	1-1098	10-CM
12 *	- Statements of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.		
21 *	- Subsidiaries of Columbia Energy Group		

(a) Executive Compensation arrangements filed pursuant to Item 14 of Form 10-K. * Filed herewith.

EXHIBIT INDEX (continued)

Reference
File No. Exhibit

- 23-A * - Letter report, dated January 23, 1998, and the written consent to the filing and use of information contained in such letter report, Reports and Registration Statements filed during 1998, of Ryder Scott Company Petroleum Engineers, independent petroleum and natural gas consultants.
- 23-B * - Written consent of Arthur Andersen LLP, independent public accountants, to the incorporation by reference of their report included in the 1997 Annual Report on Form 10-K of Columbia Energy Group and their report included in Columbia Energy Group's 1997 Annual Report to Shareholders in the registration statements on Form S-8 (File No. 33-03869), and Form S-8 (File No. 33-42776).
- 27 * - Financial Data Schedule for the period ended December 31, 1997.

* Filed herewith.

Exhibit 3-C

**CERTIFICATE OF OWNERSHIP AND MERGER
MERCING
COLUMBIA ENERGY GROUP, INC.
INTO
THE COLUMBIA GAS SYSTEM, INC.
(Pursuant to Section 253 of the General
Corporation Law of the State of Delaware)**

The Columbia Gas System, Inc., a corporation organized and existing under the laws of the State of Delaware (this "Corporation"), DOES HEREBY CERTIFY:

FIRST: That this Corporation owns all of the outstanding shares of common stock (the only outstanding class of stock) of Columbia Energy Group, Inc., a corporation incorporated on the 17th day of November 1997, pursuant to the General Corporation Law of the State of Delaware, 8 Del. C. Sections 101 et seq. (the "DGCL").

SECOND: That this Corporation, by resolutions (the "Resolutions of Merger") duly adopted by its Board of Directors, at a meeting thereof duly called and held on the 19th day of November, 1997, at which a quorum was present and acting throughout, determined to effect a merger of said Columbia Energy Group, Inc. into itself, pursuant to Section 253 of the DGCL, in which this Corporation shall be the surviving corporation (the "Merger"). A true and correct copy of the Resolutions of Merger is annexed hereto as Exhibit A and incorporated herein by reference. The Resolutions of Merger have not been amended, modified, rescinded or revoked and are in full force and effect on the date hereof.

THIRD: That, as provided in the Resolutions of Merger: (a) Pursuant to Section 253(b) of the DGCL, upon the Merger becoming effective, the name of the surviving corporation shall be changed from "The Columbia Gas System, Inc." to "Columbia Energy Group"; and (b) Pursuant to Section 102(a)(I) of the DGCL, the undersigned hereby certifies that the surviving corporation's total assets, as defined in 8 Del. C. Section 503(i), are not less than \$10,000,000.00.

FOURTH: That the Merger shall become effective at 5:00 p.m. upon the date of filing of this certificate with the Office of the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, The Columbia Gas System, Inc., has caused this Certificate to be executed and acknowledged in accordance with Section 103 of the DGCL by Oliver G. Richard III, its Chairman, President and Chief Executive Officer.

THE COLUMBIA GAS SYSTEM, INC.

By /s/ Oliver G. Richard III

*Oliver G. Richard III
Chairman, President and
Chief Executive Officer*

Exhibit-10 CD

**U.S. \$450,000,000
CREDIT AGREEMENT**

Dated as of March 11, 1998

Among

COLUMBIA ENERGY GROUP,

as Borrower,

and

THE INITIAL LENDERS NAMED HEREIN,

as Initial Lenders,

and

CITIBANK, N.A.,

as Administrative and Syndication Agent,

and

**THE CHASE MANHATTAN BANK, MORGAN GUARANTY
TRUST COMPANY OF NEW YORK AND PNC BANK, NATIONAL ASSOCIATION,**

as Co-Documentation Agents,

and

**BANK OF MONTREAL, CANADIAN IMPERIAL BANK OF COMMERCE,
THE CHASE MANHATTAN BANK, CITIBANK, N.A.,
MORGAN GUARANTY TRUST COMPANY OF NEW YORK AND PNC BANK, NATIONAL
ASSOCIATION,**

as Co-Arrangers,

and

**BANK OF MONTREAL, BANKERS TRUST COMPANY
AND CANADIAN IMPERIAL BANK OF COMMERCE,**

as Senior Managing Agents,

and

**BANK OF TOKYO-MITSUBISHI TRUST COMPANY,
COMMERZBANK, THE FIRST NATIONAL BANK OF CHICAGO,
THE FIRST NATIONAL BANK OF MARYLAND, FIRST UNION NATIONAL BANK,
NATIONAL CITY BANK AND UNION BANK OF CALIFORNIA,**

as Co-Agents

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Borrowing

Exhibit C - Form of Assignment and Acceptance

Exhibit D - Form of Opinion of Counsel for the Borrower

**COLUMBIA ENERGY GROUP
CREDIT AGREEMENT**

Dated as of March 11, 1998

Columbia Energy Group, a Delaware corporation (formerly known as The Columbia Gas System, Inc.) (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, and Citibank, N.A. ("Citibank"), as administrative agent, co-documentation agent and co-syndication agent (the "Agent") for the Lenders (as hereinafter defined), agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Adjusted CD Rate" means, for any Interest Period for each CD Rate Advance comprising part of the same Revolving Credit Borrowing, an interest rate per annum equal to the sum of:

(a) the rate per annum obtained by dividing (i) the rate of interest determined by the Agent to be the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the consensus bid rate determined by the Agent for the bid rates per annum, at 9:00 A.M. (New York City time) (or as soon thereafter as practicable) on the first day of such Interest Period, of two or more New York certificate of deposit dealers of recognized standing selected by the Agent for the purchase at face value of certificates of deposit of each Reference Bank in an amount substantially equal to such Reference Bank's CD Rate Advance comprising part of such Revolving Credit Borrowing and with a maturity equal to such Interest Period, by (ii) a percentage equal to 100% minus the Adjusted CD Rate Reserve Percentage for such Interest Period, plus

(b) the Assessment Rate for such Interest Period.

"Adjusted CD Rate Reserve Percentage" for any Interest Period for all CD Rate Advances comprising part of the same Revolving Credit Borrowing means the reserve percentage applicable on the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) U.S. dollar nonpersonal time deposits in the United States and with a maturity equal to such Interest Period.

"Advance" means a Revolving Credit Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to vote 20% or more of the Voting Stock of such Person or to direct or cause the direction of the management

and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agent's Account" means the account of the Agent maintained by the Agent at Citibank with its office at 2 Penn's Way, Suite 200, New Castle, Delaware 19720.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance or a CD Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

"Applicable Margin" means, as of any date, a percentage per annum determined by reference to the public debt rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances	Applicable Margin for CD Rate Advances	Applicable Margin for Facility Fee
Level 1 AA-/AA3 or higher	0	.13%	.255%	.05%
Level 2 A+/A/A-/A1/A2/A3	0	.20%	.325%	.06%
Level 3 BBB+/Baa1	0	.215%	.34%	.085%
Level 4 BBB/Baa2	0	.26%	.385%	.105%
Level 5 BBB-/Baa3 or lower	0	.31%	.45%	.125%

For purposes of this definition, "public debt rating" means, as of any date, the rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a public debt rating, the Applicable Margin shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a public debt rating, the Applicable Margin will be set in accordance with Level 5 under the definition of "Applicable Margin";

(c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin shall be determined by reference to the higher rating; provided, however, that if the ratings are different by two or more levels, the Applicable Margin shall be determined by reference to the rating that is one rating lower than the higher rating; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the public debt rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"Appropriate Lender" means, at any time, with respect to the Revolving Credit Facility, a Lender that has a Revolving Credit Commitment with respect to such Facility at such time.

"Arranger" means Citicorp Securities, Inc., as arranger of the syndicate of Initial Lenders hereunder.

"Assessment Rate" for any Interest Period for all CD Rate Advances comprising part of the same Revolving Credit Borrowing means the annual assessment rate estimated by the Agent on the first day of such Interest Period for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, 11 U.S.C. Sections 101 et seq., as amended from time to time.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

- (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate; and
- (b) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.05(a)(i).

"Borrowing" means a Revolving Credit Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"Capitalized Leases" has the meaning specified in clause (e) of the definition of "Debt".

"Capitalization" means, with respect to any Subsidiary, the total amount of liabilities of such Subsidiary plus the total amount of equity of such Subsidiary all as determined in accordance with GAAP.

"Cash Collateral Account" means an interest bearing cash collateral account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon such terms as may be satisfactory to the Agent.

"CD Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.05(a)(iii).

"CGTC" means Columbia Gas Transmission Corporation, a wholly-owned subsidiary of the Borrower as of the date hereof.

"Citibank" means Citibank, N.A.

"Co-Documentation Agents" means The Chase Manhattan Bank, Morgan Guaranty Trust Company of New York and PNC Bank, National Association.

"Confidential Information" means information that the Borrower furnishes to the Agent or any Lender in a writing designated as confidential, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Agent or such Lender

from a source other than the Borrower or any of its Affiliates.

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of another Type pursuant to Section 2.06 or 2.08.

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, excluding (x) such obligations arising in the ordinary course of business and maturing six months or less from the date of creation thereof; and (y) such obligations arising in the ordinary course of business and maturing in more than six months if in the aggregate on a consolidated basis for the Borrower and its Subsidiaries such obligations are less than \$30,000,000, (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person created or arising under any conditional sale or other similar title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases ("Capitalized Leases") (provided that the value of any Capitalized Lease shall be equal to the value of such Capitalized Lease that is or should be capitalized in accordance with GAAP), (f) an amount equal to the present value (discounted at the then applicable five-year treasury bond rate) of operating lease obligations of such Person in excess of \$30,000,000 in any calendar year, disregarding for this purpose leases other than those with an initial or remaining noncancellable lease term in excess of one year, (g) to the extent required to be reflected on the balance sheet of such Person prepared in accordance with GAAP or in the footnotes thereto, all Debt of others directly and indirectly guaranteed by such Person, but only to the extent of such direct or indirect guarantee, and only to the extent that in the aggregate on a consolidated basis for the Borrower and its Subsidiaries such obligations exceed \$30,000,000 and (h) to the extent required to be reflected on the balance sheet of such Person prepared in accordance with GAAP or in the footnotes thereto, all Debt referred to in clauses (a) through (g) above secured by any Lien on property owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt, but only to the extent of the book value of the property subject to such Lien.

"Declining Lender" has the meaning specified in Section 2.16(a).

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Disclosed Litigation" has the meaning specified in Section 3.01(b).

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (i) a Lender; (ii) an Affiliate of a Lender; (iii) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (iv) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (v) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International

Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000 so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (v); (vi) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; (vii) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of \$1,000,000,000 and (viii) any other Person approved by the Agent and the Borrower, such approval not to be unreasonably withheld or delayed; provided, however, that neither the Borrower nor an Affiliate of the Borrower shall qualify as an Eligible Assignee.

"Environmental Action" means any material action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, proceeding, consent order or consent agreement arising pursuant to, or in connection with, an alleged violation of any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any applicable federal, state or local statute, law, ordinance, rule, regulation, code, order, judgment or decree relating to pollution or protection of the environment, health or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, license or other authorization required under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person that for purposes of Title IV of ERISA is a member of the Borrower's controlled group, or under common control with the Borrower, within the meaning of Section 414(b) or (c) of the Internal Revenue Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Internal Revenue Code, the entirety of Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any ERISA Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of an ERISA Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such ERISA Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to an ERISA Plan; (c) the provision by the administrator of any ERISA Plan of a notice of intent pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA) to terminate such ERISA Plan pursuant to Section 4041(c) of ERISA; (d) the cessation of operations at a facility of the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any ERISA Plan; (g) the adoption of an

amendment to an ERISA Plan requiring the provision of security to such ERISA Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate an ERISA Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in

Section 4042(a) of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, an ERISA Plan; provided, however, that the occurrence of an event or condition described in Section 4042(a)(4) of ERISA shall be an ERISA Event only if (i) the Borrower or any ERISA Affiliate knows or has reason to know thereof or (ii) the PBGC has notified the Borrower or any ERISA Affiliate that it is considering termination of an ERISA Plan on such basis.

"ERISA Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurodollar Rate Advance comprising part of such Revolving Credit Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period. The Eurodollar Rate for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.06.

"Eurodollar Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.05(a)(ii).

"Eurodollar Rate Reserve Percentage" of any Lender for any Interest Period for all Eurodollar Rate Advances comprising part of the same Borrowing means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Existing Agreement" means the \$1,000,000,000 credit agreement dated as of November 28, 1995 among the Borrower, the Agent and the lender parties thereto.

"Extending Lender" has the meaning specified in Section 2.16(a).

"Facility" means the Revolving Credit Facility.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Final Maturity Date" means (a) the Termination Date or (b) if extended pursuant to Section 2.16(b), the date requested by the Borrower pursuant to Section 2.16(b), but in no event shall such date be later than the first anniversary of the then scheduled Termination Date.

"Five-Year Credit Agreement" means the Credit Agreement dated as of March 11, 1998 among the Borrower, the Agent and the lenders named therein.

"Five-Year Loan Documents" means the Five-Year Credit Agreement and the Five-Year Notes.

"Five-Year Notes" means each of the promissory notes of the Borrower executed pursuant to the Five-Year Credit Agreement.

"GAAP" has the meaning specified in Section 1.03.

"Hazardous Materials" means (a) petroleum and petroleum products or byproducts, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic under any Environmental Law.

"Indenture" means the indenture dated as November 28, 1995 between the Borrower and Marine Midland Bank, N.A., Trustee, as amended and supplemented to the date hereof.

"Information Memorandum" means the information memorandum dated January 1998 used by the Arranger in connection with the syndication of the Revolving Credit Commitments.

"Interest Period" means, for each Eurodollar Rate Advance or CD Rate Advance comprising part of the same Revolving Credit Borrowing, the period commencing on the date of such Eurodollar Rate Advance, CD Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance or CD Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances and CD Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be

(a) in the case of a Eurodollar Rate Advance, one, two, three, six, or (with the consent of all Lenders) twelve months, as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select and (b) in the case of a CD Rate Advance, 30, 60, 90 or 180 days as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the second Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) the Borrower may not select any Interest Period that ends after the Final Maturity Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances or CD Rate Advances comprising part of the same Revolving Credit Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Lenders" means the Initial Lenders and each Person that shall become a party hereto pursuant to Section 8.07(a), (b) and (c).

"Lien" means any lien, security interest or other charge or encumbrance of any kind, including, without limitation, any easement, right of way or other encumbrance of record on title to real property.

"Loan Documents" means this Agreement and each Note executed hereunder.

"Material Adverse Change" means any material adverse change in the condition (financial or otherwise) or operations of the Borrower and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on

(a) the condition (financial or otherwise) or operations of the Borrower and its Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under any Loan Document or (c) the ability of the Borrower to perform its obligations under any Loan Document or any Five-Year Loan Document.

"Material Subsidiaries" means all of the Borrower's Subsidiaries excluding (i) each Subsidiary listed on Schedule II hereto and (ii) any other Subsidiary hereafter formed or acquired unless or until the Borrower's direct or indirect investment therein exceeds \$10,000,000 or the assets of such Subsidiary exceeds \$25,000,000.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan, as defined in

Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of

ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Non-Recourse Debt" means (a) Debt of a Project Finance Subsidiary and (b) Debt of any other Person other than the Borrower or a Material Subsidiary secured by a Lien in or upon one or more assets of such Person where the rights and remedies of the holder of such Debt in respect of such Debt do not extend to any other assets of such Person other than in respect of claims for (a) misapplied moneys, including insurance and condemnation proceeds and security deposits, (b) indemnification by such person in favor of holders of such Debt and their Affiliates in respect of liabilities to third parties, including environmental liabilities, (c) breaches of customary representations and warranties given to the holder of such Debt and (d) such other similar obligations as are customarily excluded from the provisions that otherwise limit the recourse of commercial lenders making so-called "non-recourse" loans to institutional borrowers and trustees and agents for such lender.

"Note" means a Revolving Credit Note.

"Notice of Revolving Credit Borrowing" has the meaning specified in section 2.02(a).

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor).

"Permitted Liens" means (a) Liens for taxes, assessments and governmental charges or levies to the extent not required to be paid under Section 5.01(b) hereof; (b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (d) easements, rights of way and other encumbrances on title to real property that do not themselves render such title unmarketable or materially adversely affect the use of such property for its present purposes; and (e) pledges or deposits to secure the performance of bids, contracts, leases, surety or appeal bonds or other obligations of a like nature.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"PNC Bank" means PNC Bank, National Association.

"Project Finance Subsidiary" means a Subsidiary of the Borrower created and maintained for the sole purpose of developing, constructing, financing, holding or operating, directly or indirectly, a property or project or a group of related properties or projects, either alone or with one or more other Persons, and that (a) does not engage in any business unrelated to such Subsidiary, project or property or the financing thereof, and (b) does not have any assets or Debt other than those related to its interest in such subsidiary, project or property or the financing thereof.

"Pro Rata Share" of any amount means, with respect to any Lender at any time, the product of such amount times, in the case of a Lender, a fraction the numerator of which is the amount of such Lender's Revolving Credit Commitment at such time and the denominator of which is the aggregate amount of the Revolving Credit Commitments of all Lenders at such time.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended from time to

time.

"Reference Banks" means Citibank and Canadian Imperial Bank of Commerce.

"Register" has the meaning specified in Section 8.07(g).

"Replacement Lender" has the meaning specified in Section 2.16(a).

"Required Lenders" means at any time Lenders owed at least 51% of the then aggregate unpaid principal amount of the Revolving Credit Advances owing to Lenders, or, if no such principal amount is then outstanding, Lenders having at least 51% of the Revolving Credit Commitments.

"Revolving Credit Advance" means an advance by a Lender to the Borrower as part of a Revolving Credit Borrowing and refers to a Base Rate Advance, a CD Rate Advance or a Eurodollar Rate Advance (each of which shall be a "Type" of Revolving Credit Advance).

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Revolving Credit Commitment" has the meaning specified in Section 2.01(a).

"Revolving Credit Facility" means, at any time, the aggregate amount of the Lenders' Revolving Credit Commitments at such time.

"Revolving Credit Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit A hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Revolving Credit Advances made by such Lender.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc.

"Single Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate which is consolidated under GAAP with the accounts of such Person of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Tangible Net Worth" means, at any time, the excess of total assets over total liabilities (including, without limitation, the aggregate liquidation value of all stock of such Person that is mandatorily redeemable other than for the common stock of such Person or that may be put by the holder to such Person for consideration other than the common stock of such Person, in either case on or before December 31, 2004) of the Borrower and its Subsidiaries at such time, on a Consolidated basis, total assets and total liabilities each to be determined in accordance with GAAP, excluding, however, from the

determination of total assets (i) goodwill, organizational expenses, research and development expenses, trademark, trade names, copyrights, patents, patent applications, licenses and rights if any thereof, and other similar intangibles, (ii) all prepaid expenses and deferred charges (other than those of the type incurred by the Borrower and its Subsidiaries in the ordinary course of business on or immediately prior to the date hereof) or unamortized debt discount and expense, (iii) all reserves carried and not deducted from assets, (iv) treasury stock, (v) securities (other than investments which are accounted for pursuant to GAAP as investments or property, plant and equipment) which are not readily marketable, (vi) cash held in a sinking or other analogous fund established for the purpose of redemption, retirement or prepayment of capital stock or indebtedness, except to the extent such capital stock or indebtedness is included in total liabilities pursuant to GAAP, (vii) any write-up in the book value of any asset resulting from a revaluation thereof subsequent to September 30, 1997, other than write-ups of assets of a going concern business made within 12 months after the acquisition of such business pursuant to GAAP, and (viii) any items not included in clauses (i) through (vii) above which are treated as intangibles in conformity with GAAP; provided, however, that notwithstanding the foregoing exclusions, regulatory assets recorded on the Consolidated balance sheet of the Borrower and its Subsidiaries shall not be excluded for purposes of determining Tangible Net Worth.

"Termination Date" means the earlier of (i) 364 days after the Effective Date or, if extended pursuant to Section 2.16(a), the date that is 364 days after the Termination Date then in effect, and (ii) the date of termination in whole of the Revolving Credit Commitments pursuant to Section 2.03 or 6.01.

"Total Debt" means, at any time, all Debt (including, without limitation, the aggregate outstanding principal amount of all Advances hereunder) of the Borrower and its Subsidiaries, on a Consolidated basis at such time, provided that for the purposes of the calculation of Total Debt, any Non-Recourse Debt shall be included only in an amount equal to the lesser of (i) the principal amount of such Non-Recourse Debt and (ii) the equity of the Borrower and its Subsidiaries in the asset or Project Finance Subsidiary, as the case may be, relating to such Non-Recourse Debt.

"Type" has the meaning specified in the definition of "Revolving Credit Advance".

"UCP" has the meaning specified in Section 8.09.

"Unused Revolving Credit Commitment" means at any time, (a) the aggregate Revolving Credit Commitment at such time minus (b) the sum of the aggregate principal amount of all Revolving Credit Advances made by all Lenders and outstanding at such time.

"U.S. Dollar" and the sign "\$" each means lawful money of the United States.

"Voting Stock" means outstanding capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Wholly Owned Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate which is consolidated with the accounts of such Person and of which (or in which) 100% (other than directors' qualifying shares or interests) of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial

interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Wholly Owned Subsidiaries or by one or more of such Person's other Wholly Owned Subsidiaries.

"Withdrawal Liability" has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles, as in effect on the date hereof, consistent with those applied in the preparation of the financial statements referred to in

Section 4.01(e) ("GAAP").

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The Revolving Credit Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on the signature pages hereof under the caption "Revolving Credit Commitment" or, if such Lender has entered into any Assignment and Acceptance, set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(g), as such amount may and shall be reduced pursuant to Section 2.03 (such Lender's "Revolving Credit Commitment"), provided that no Revolving Credit Borrowing shall be made if, following the making of such Revolving Credit Borrowing the aggregate amount of the Advances then outstanding would exceed the aggregate amount of the Revolving Credit Commitments of the Lenders. Each Revolving Credit Borrowing shall be in an aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Credit Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Lender's Revolving Credit Commitment, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.09 and, unless the Borrower has delivered a request pursuant to the provisions of Section 2.16(b), reborrow under this Section 2.01(a).

SECTION 2.02. Making the Advances. (a) Each Revolving Credit Borrowing shall be made on notice, given not later than 11:00 A.M. (New York City time) on (i) the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances, (ii) the second Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of CD Rate Advances, and (iii) the first Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or tested telex. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier or tested telex in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances or CD Rate Advances, initial Interest Period for each such Revolving Credit Advance. Each Lender shall, before 11:00 A.M. (New York City time) on the date of such Revolving Credit Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment

of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Revolving Credit Borrowing if the aggregate amount of such Revolving Credit Borrowing is less than \$10,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.06 or 2.11 and (ii) Revolving Credit Advances may not be outstanding as part of more than ten separate Borrowings; provided, however, that for purposes of the limitation set forth in clause (ii) of this sentence, all Borrowings consisting of Base Rate Advances shall constitute a single Borrowing.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Revolving Credit Borrowing that the related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurodollar Rate Advances or CD Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense to the extent incurred by such Lender as a direct result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance to be made by such Lender as part of such Revolving Credit Borrowing when such Revolving Credit Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from the Appropriate Lender prior to the date of any Borrowing under a Facility under which such Lender has a Revolving Credit Commitment, that such Lender will not make available to the Agent such Lender's ratable portion of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the Borrower severally agree to repay or pay to the Agent forthwith on demand such corresponding amount and to pay interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid or paid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at such time under Section 2.05 to Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall pay to the Agent such corresponding amount, such amount so paid shall constitute such Lender's Advance as part of such Borrowing for all purposes.

(e) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

SECTION 2.03. Optional Termination or Reduction of Revolving Credit Commitments. The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Revolving Credit Commitments of the Lenders, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

SECTION 2.04. Repayment of Revolving Credit Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Final Maturity Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

SECTION 2.05. Interest on Advances. (a) **Scheduled Interest.** The Borrower shall pay

interest on the unpaid principal amount of each Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time, payable in arrears quarterly on the first Business Day of each January, April, July and October during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) CD Rate Advances. During such periods as such Advance is a CD Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Adjusted CD Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than 90 days, on each day that occurs during such Interest Period every 90 days from the first day of such Interest Period and on the date such CD Advance shall be Converted or paid in full.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Borrower shall pay interest on (i) the unpaid principal amount of each Advance owing to each Lender, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above.

(c) Additional Interest on Eurodollar Rate Advances. The Borrower shall pay to each Lender, so long as such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Advance of such Lender during such periods as such Advance is a Eurodollar Rate Advance, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for such Interest Period for such Eurodollar Rate Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for such Interest Period, payable on each date on which interest is payable on such Eurodollar Rate Advance. Such additional interest shall be determined by such Lender and notified to the Borrower through the Agent.

SECTION 2.06. Interest Rate Determination. (a) Each Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Eurodollar Rate and each Adjusted CD Rate. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks. The Agent shall give prompt notice to the Borrower and the

Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.05(a)(i), (ii) or (iii), and the rate, if any, furnished by each Reference Bank for the purpose of determining the interest rate under Section 2.05(a)(ii) or (iii).

(b) If, with respect to any Eurodollar Rate Advances, the Required Lenders notify the Agent prior to the commencement of the Interest Period therefor that the Eurodollar Rate for such Interest Period for such Advances will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify the Borrower and the Lenders, whereupon (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (ii) the obligation of the Lenders to make, or to Convert Revolving Credit Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances or any CD Rate Advance in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances or CD Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$10,000,000, such Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurodollar Rate Advance and CD Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances or CD Rate Advances shall be suspended.

(f) If none of the Reference Banks furnish timely information to the Agent for determining the Eurodollar Rate or Adjusted CD Rate for any Eurodollar Rate Advances or CD Rate Advances, as the case may be:

(i) the Agent shall forthwith notify the Borrower and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances or CD Rate Advances, as the case may be,

(ii) with respect to Eurodollar Rate Advances, each such Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Lenders to make Eurodollar Rate Advances or CD Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

SECTION 2.07. Fees. (a) Facility Fee. The Borrower agrees to pay to the Agent for the account of each Lender a facility fee on the daily aggregate amount of such Lender's Revolving Credit Commitment (i) from the earlier of (x) the Effective Date or (y) 30 days following the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender (but not prior to the earlier of (i) the Effective Date or (ii) 30 days following the date hereof) in the case of each other Lender until the Termination Date then in effect, at a rate per annum equal to the Applicable Margin in effect from time to time or (ii) if the Borrower has extended the Final Maturity date pursuant to Section 2.16(b), from the Termination Date then in effect until the Final Maturity Date as a per annum rate equal to the Applicable Margin in effect from time to time, payable in arrears quarterly on the first Business

Day of each January, April, July and October, commencing April 1, 1998, and on the Termination Date or Final Maturity Date.

(b) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrower and the Agent.

(c) Arranger's, Co-Documentation Agents and Co-Arranger's Fee. The Borrower shall pay to the Arranger for its own account or, as applicable, the account of a Co-Documentation Agent or Co-Arranger such fees as agreed between the Borrower and the Arranger, the Borrower and the Co-Arrangers and the Borrower and the Co-Documentation Agents.

(d) Senior Managing and Co-Agents' Fee. The Borrower shall pay to the Agent for the account of each Senior Managing and Co-Agent such fees as specified in the Information Memorandum.

SECTION 2.08. Optional Conversion of Revolving Credit Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections

2.06 and 2.11, Convert all or any portion of the Advances of one Type comprising the same Borrowing into Advances of another Type or change the Interest Period therefor into another permissible Interest Period; provided, however, that (i) in the event that any Conversion of Eurodollar Rate Advances or CD Rate Advances into Base Rate Advances is made on a day other than the last day of an Interest Period for such Eurodollar Rate Advances or CD Rate Advances, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section

8.04(c), (ii) each Conversion shall be of Advances in an aggregate amount not less than \$10,000,000, (iii) no Conversion of any Advances shall result in more separate Borrowings than permitted under Section 2.02(c) and (iv) each Conversion of Advances comprising part of the same Borrowing under any Facility shall be made ratably among the appropriate Lenders in accordance with their Revolving Credit Commitments under such Facility. Each such notice of a Conversion shall, within the restrictions specified above, specify (A) the date of such Conversion, (B) the Advances to be Converted and (C) if such Conversion is into Eurodollar Rate Advances or CD Rate Advances, the duration of the initial Interest Period for each such Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

SECTION 2.09. Prepayments of Advances. (a) Optional. The Borrower may, upon (i) at least three Business Days' notice in the case of a Eurodollar Rate Advance or CD Rate Advance and (ii) at least one Business Day's notice in the case of a Base Rate Advance in each case to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of such Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof ; provided, however, that following each partial prepayment of any Eurodollar Rate Advance the remaining outstanding amount of such Advance shall be at least \$10,000,000 and (y) in the event of any such prepayment of a Eurodollar Rate Advance or CD Rate Advance other than on the last day of the Interest Period therefor, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(c).

(b) Mandatory. (i) The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Revolving Credit Advances comprising part of the same Borrowings equal to the amount by which (A) the sum of the aggregate principal amount of the Revolving Credit Advances exceeds (B) the Revolving Credit Facility on such Business Day.

(ii) All prepayments under this subsection (b) shall be made together with accrued interest to the date of such prepayment on the principal amount prepaid. If any payment required to be made under this

Section 2.09(b) on account of Eurodollar Rate Advances or CD Rate Advances would be made other than on the last day of the applicable Interest Period therefor, the Borrower may, in lieu of prepaying such Advance, deposit the amount of such payment in the Cash Collateral Account until the last day of the applicable Interest Period at which time such payment shall be made.

SECTION 2.10. Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation, with respect to any Eurodollar Rate Advance or CD Rate Advance, after the date hereof or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), adopted or made, with respect to any Eurodollar Rate Advance or CD Rate Advance, after the date hereof, there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or CD Rate Advances (excluding for purposes of this Section 2.10 any such increased costs resulting from taxes, including Taxes and Other Taxes (as to which Section 2.13 shall govern)), then the Borrower shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost to the extent actually incurred; provided, however, that, before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such increased cost and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost, setting forth the basis therefor in reasonable detail, submitted to the Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender reasonably determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) adopted after the date hereof affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by such Lender (with a copy of such demand to the Agent), the Borrower shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder to the extent actually incurred; provided, however, that, before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such additional amounts payable under this subsection (b) and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to such amounts setting forth the basis therefor in reasonable detail, submitted to the Borrower and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) Notwithstanding any other provision in this Section 2.10, no Lender shall be entitled to demand compensation pursuant to this Section 2.10 unless, at such time, it is the general policy or practice of such Lender to demand such compensation in similar circumstances under comparable provisions of other comparable credit agreements with borrowers of similar credit quality. The Borrower shall pay each Lender the amount shown as due on any certificate delivered by such Lender pursuant to subsection (a) or (b) above within 30 days after its receipt of the same.

(d) No Lender shall be entitled to compensation under this Section 2.10 for any costs incurred or reductions suffered with respect to any event or circumstance unless such Lender shall have notified the Borrower, not more than 120 days after such Lender becomes aware of such event or circumstance, that it will demand compensation for such costs or reductions in a certificate described in the last sentence of each of subsections (a) and (b) above.

SECTION 2.11. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent and the Borrower that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (i) the obligation of the Lenders to make Eurodollar Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended, whereupon any request by the Borrower for a Borrowing comprised of Eurodollar Rate Advances shall be deemed a request for a Base Rate Advance until the affected Lender shall notify the Agent and the Borrower that the circumstances causing such suspension no longer exist and (ii) the Lenders may require that all outstanding Eurodollar Rate Advances made by it be Converted to Base Rate Advances, in which event all such Eurodollar Rate Advances shall be automatically Converted to Base Rate Advances as of the effective date of such notice; provided, however, that each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would enable such Lender to withdraw its notice under this Section and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. In the event any Lender shall notify the Agent and the Borrower of the occurrence of the circumstances causing such suspension under this Section, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Rate Advances that would have been made by such Lender or the Converted Eurodollar Rate Advances shall instead be applied to repay the Base Rate Advances made by such Lender in lieu of such Eurodollar Rate Advances, or resulting from the Conversion of such Eurodollar Rate Advances. For purposes of this Section 2.11, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Rate Advance, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Rate Advance; in all other cases such notice shall be effective on the date of the occurrence of the circumstances causing such suspension.

SECTION 2.12. Payments and Computations. (a) The Borrower shall make each payment hereunder and under the Notes not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.10, 2.13 or 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Base Rate (to the extent governed by clause (a) of the definition thereof) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, Adjusted CD Rate or the Federal Funds Rate and of facility fees shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate

Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.13. Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes shall be made, in accordance with Section 2.12, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized, managed or controlled or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made under any Note or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or any the Note (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any taxes imposed by any jurisdiction on amounts payable under this Section 2.13) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including, without limitation, penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof. In the case of any payment hereunder or under the Notes by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes imposed by the jurisdiction from which such payment is made. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender, on the date of the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender, and from time to time thereafter as requested in writing by the Borrower (but only so long as such Lender remains lawfully able to do so), shall provide each of the Agent and the Borrower with two original Internal Revenue Service forms 1001 or 4224, as appropriate, or any successor or other form prescribed by the Internal Revenue Service, certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes. If the forms provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the date of the Assignment and Acceptance pursuant to which a Lender assignee becomes a party to this Agreement, the Lender assignor was entitled to payments under subsection (a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) the lesser of (i) the United States withholding tax, if any, applicable with respect to the Lender assignee on such date and (ii) the United States withholding tax, if any, applicable with respect to the Lender assignor on such date. For purposes of this subsection (e), the term Assignment and Acceptance shall include a change in the Applicable Lending Office of a Lender. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form 1001 or 4224, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender has failed to provide the Borrower with the appropriate form described in Section 2.13(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a form originally was required to be provided, or if such form otherwise is not required under the first sentence of subsection (e) above), such Lender shall not be entitled to indemnification under Section 2.13(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes and any cost or expense incurred by the Borrower in connection therewith shall be promptly reimbursed by such Lender.

(g) If a Lender or the Agent receives a refund from a taxing authority in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.13, it shall within 30 days from the date of such receipt pay over such refund to the Borrower, net of all out-of-pocket expenses of such Lender or the Agent; provided, however, that the Borrower, upon the request of such Lender or the Agent, agrees to repay the amount paid over to the Borrower to such Lender or the Agent in the event such Lender or the Agent is required to repay such refund to such taxing authority.

(h) Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section 2.13 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.14. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether

voluntary, involuntary, through the exercise of any right of setoff, or otherwise) on account of the Revolving Credit Advances owing to it (other than pursuant to Section 2.10, 2.13 or 8.04(c)) in excess of its ratable share of payments on account of the Revolving Credit Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participation in the Revolving Credit Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.15. Use of Proceeds. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely for general corporate purposes of the Borrower and its Subsidiaries including, without limitation, the financing of acquisitions not otherwise prohibited by this Agreement.

SECTION 2.16. Extensions of Termination Date and Final Maturity Date. (a) No earlier than 60 days and no later than 45 days prior to the Termination Date in effect at any time, the Borrower may, by written notice to the Administrative Agent, request that such Termination Date be extended for a period of 364 days. Such request shall be irrevocable and binding upon the Borrower. The Administrative Agent shall promptly notify each Lender of such request. If a Lender agrees, in its individual and sole discretion, to so extend its Revolving Credit Commitment (an "Extending Lender"), it shall deliver to the Administrative Agent a written notice of its agreement to do so no earlier than 30 days and no later than 20 days prior to such Termination Date and the Administrative Agent shall notify the Borrower of such Extending Lender's agreement to extend its Commitment no later than 15 days prior to such Termination Date. The Revolving Credit Commitment of any Lender that fails to accept or respond to the Borrower's request for extension of the Termination Date (a "Declining Lender") shall be terminated on the Termination Date originally in effect (without regard to any extension by other Lenders) and on such Termination Date the Borrower shall pay in full the principal amount of all Advances owing to such Declining Lender, together with accrued interest thereon to the date of such payment of principal and all other amounts payable to such Declining Lender under this Agreement. The Administrative Agent shall promptly notify each Extending Lender of the aggregate Commitments of the Declining Lender. The Extending Lenders, or any of them, may offer to increase their respective Commitments by an aggregate amount up to the aggregate amount of the Declining Lenders' Commitments and any such Extending Lender shall deliver to the Administrative Agent a notice of its offer to so increase its Commitment no later than 15 days prior to such Termination Date. To the extent of any shortfall in the aggregate amount of extended Commitments, the Borrower shall have the right to require any Declining Lender to assign in full its rights and obligations under this Agreement to an Eligible Assignee designated by the Borrower and acceptable to the Administrative Agent, such acceptance not to be unreasonably withheld, that agrees to accept all of such rights and obligations (a "Replacement Lender"), provided that (i) such increase and/or such assignment is otherwise in compliance with Section 8.07, (ii) such Declining Lender receives payment in full of the principal amount of all Advances owing to such Declining Lender, together with accrued interest thereon to the date of such payment of principal and all other amounts payable to such Declining Lender under this Agreement and (iii) any such increase shall be effective on the Termination Date in effect at the time the Borrower requests such extension and any such assignment shall be effective on the date specified by the Borrower and agreed to by the Replacement Lender and the Administrative Agent. If Extending Lenders and Replacement Lenders provide Commitments in an aggregate amount at least equal to 51% of the aggregate amount of the Commitments outstanding 30 days prior to the Termination Date in effect at the time the Borrower requests such extension, the Termination Date shall be

extended by 364 days for such Extending Lenders, subject, however, to the provisions of subsection (b) of this Section 2.16.

(b) No earlier than 60 days and no later than 45 days prior to the Termination Date in effect at any time, the Borrower may, by written notice to the Administrative Agent, request that the Final Maturity Date be a date occurring up to the first anniversary of the then scheduled Termination Date. Such request shall be irrevocable and binding upon the Borrower. The Administrative Agent shall promptly notify each Lender of such request. Subject to the satisfaction of the applicable conditions set forth in Section 3.02 as of such Termination Date, the Final Maturity Date shall be, effective as of such Termination Date, such date as the Borrower shall request pursuant to this subsection (b) of this Section 2.16 and, as of such Termination Date, all Unused Revolving Credit Commitments shall be canceled.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Conditions Precedent to Effectiveness of Section

2.01. Section 2.01 of this Agreement shall become effective on and as of the first date occurring not later than March 20, 1998 (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no Material Adverse Change since December 31, 1996.

(b) There shall exist no action, suit, investigation, litigation or proceeding affecting the Borrower or any of its Material Subsidiaries pending or threatened before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect other than the matters described on Schedule 3.01(b) hereto (the "Disclosed Litigation") or (ii) purports to affect the legality, validity or enforceability of any Loan Document or the consummation of the transactions contemplated thereby, and there shall have been no material adverse change in the status, or financial effect on the Borrower and its Material Subsidiaries taken as a whole, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(c) All governmental, regulatory and third party consents and approvals necessary in connection with the transactions contemplated hereby (including, without limitation, all consents and approvals required under PUHCA) shall have been obtained (without the imposition of any conditions that are not acceptable in the reasonable judgment of the Lenders) and shall remain in effect, and no law or regulation shall be applicable in the reasonable judgment of the Lenders that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.

(d) The Borrower shall have notified the Agent in writing as to the proposed Effective Date.

(e) The Borrower shall have paid all fees and expenses of the Agent and fees of the Lenders (including the fees and expenses of counsel to the Agent) and fees of the Co-Documentation Agents then due; provided that the Borrower shall not be required to pay any expenses (including fees and expenses of counsel to the Agent) on the Effective Date unless the Borrower shall have received an invoice therefor at least three Business Days prior to the Effective Date.

(f) On the Effective Date, the following statements shall be true and the Agent shall have received for the account of each Lender a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

(i) the representations and warranties contained in Section 4.01 are correct on and as of the Effective Date,

(ii) no event has occurred and is continuing that constitutes a Default, and

(iii) the Information Memorandum and all other information, exhibits and reports furnished by the Borrower to the Agent and the Lenders in connection with the negotiation of the Loan Documents, taken as a whole, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(g) The Borrower shall have received, and shall continue to maintain as of the Effective Date, a long term unsecured debt rating equal to or higher than BBB+ from S&P and equal to or higher than Baa1 from Moody's.

(h) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and (except for the Revolving Credit Notes) in sufficient copies for each Lender:

(i) The Revolving Credit Notes to the order of the Lenders, respectively.

(ii) Certified copies of the resolutions of the Board of Directors of the Borrower approving the Facilities, and of all documents evidencing other necessary corporate action, governmental and regulatory approvals and third party consents (including, without limitation, all approvals and consents required under PUHCA) with respect to this Agreement and the Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(iv) A favorable opinion of LeBoeuf, Lamb, Greene & MacRae, L.L.P., counsel for the Borrower, substantially in the form of Exhibit D hereto.

(v) A favorable opinion of Shearman & Sterling, counsel for the Agent, in form and substance satisfactory to the Agent.

(vi) Such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

(vii) The Agent shall have received on or before the Effective Date a letter from the Borrower, dated on or before such day, terminating in whole the commitments of the banks party to the Existing Agreement, and each of the Lenders that is party to the Existing Agreement waives, upon execution of this Agreement, the three Business Days' notice required by Section 2.05(a) of the Existing Agreement relating to the termination of commitments under the Existing Agreement.

(viii) The Borrower shall have satisfied and discharged all of its obligations under the Existing Agreement including, without limitation, the payment of all fees under the Existing Agreement.

SECTION 3.02. Conditions Precedent to Each Borrowing and to Extension of the Final

Maturity Date. The obligation of each Lender to make an Advance on the occasion of each Borrowing and the extension of the Final Maturity Date pursuant to

Section 2.16(b) shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or in the case of the extension of the Final Maturity Date, on the Termination date then in effect, the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or notice of extension of the Final Maturity Date, as the case may be, and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing such statements are true):

(i) the representations and warranties contained in Section

4.01 are correct on and as of the date of such Revolving Credit, before and after giving effect to such Revolving Credit and to the application of the proceeds therefrom, as though made on and as of such date, and

(ii) no event has occurred and is continuing, or would result from such Revolving Credit or from the application of the proceeds therefrom, that constitutes a Default.

SECTION 3.03. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower, by notice to the Lenders, designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders of the occurrence of the Effective Date, which notice shall be conclusive and binding.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) The Borrower and the Material Subsidiaries are each entities duly organized, validly existing and in good standing under the laws of the jurisdiction of their organization.

(b) The execution, delivery and performance by the Borrower of each of the Loan Documents to which the Borrower is a party, and the consummation of the transactions contemplated thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (A) contravene (i) the Borrower's charter or by-laws or (ii) any law, rule or regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), or any contractual restriction binding on or, to the Borrower's knowledge, affecting the Borrower (except that certain orders are required under PUHCA for the performance of this Agreement and the execution, performance and delivery of any Note hereunder, which orders have been obtained) or (B) result in the imposition of any Lien.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Borrower of any Loan Document to which the Borrower is a party, except for those authorizations, approvals, actions, notices and filings (including any such authorizations, approvals, actions, notices and filings required under PUHCA for the performance of this Agreement and the execution, performance and delivery of any Note hereunder) listed on Schedule 4.01(c) hereto, all of

which, as of the Effective Date, have been duly obtained, taken, given or made and are in full force and effect.

(d) This Agreement has been, and each of the other Loan Documents to which the Borrower is a party when delivered hereunder will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents to which the Borrower is a party when delivered hereunder will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms.

(e) The Consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 1996, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Arthur Andersen, LLP, independent public accountants, and the Consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 1997, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the nine months then ended, duly certified by the chief accounting officer of the Borrower, copies of which have been furnished to each Lender, fairly present, subject, in the case of said balance sheet as of September 30, 1997, and said statements of income and cash flows for the nine months ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower and its Subsidiaries as at such date and the Consolidated results of the operations of the Borrower and its Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied. Since December 31, 1996, there has been no Material Adverse Change.

(f) The Borrower is a "holding company" and each of the Borrower's Subsidiaries is a "subsidiary company" of the Borrower within the meaning of PUHCA; provided, however, that this representation shall be applicable only so long as PUHCA shall not be abolished or repealed.

(g) There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, against or, to the Borrower's knowledge, affecting the Borrower or any of its Material Subsidiaries before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation) or (ii) purports to affect in a material way the legality, validity or enforceability of any Loan Document or the consummation of the transactions contemplated thereby, and there has been no material adverse change in the status, or financial effect on the Borrower and its Material Subsidiaries taken as a whole, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(h) Neither the Borrower nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, provided that the Borrower may repurchase its own stock so long as any such repurchase or repurchases are made in the ordinary course of business.

(i) The Borrower and each of its Material Subsidiaries is currently in compliance, in all material respects, with all applicable laws, rules, regulations and orders, including, without limitation, compliance with PUHCA and ERISA and Environmental Laws as provided in Section 5.01(a), except in each case to the extent that failure to do so is not reasonably likely to have a Material Adverse Effect.

(j) No ERISA Event has occurred or is reasonably expected to occur with respect to any ERISA Plan that is reasonably likely to result in a Material Adverse Effect.

(k) Neither the Borrower nor any ERISA Affiliate has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan that is reasonably likely to result in a Material Adverse Effect.

(l) Neither the Borrower nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA, where such notification, reorganization or termination is reasonably likely to result in a Material Adverse Effect.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will:

(a) Compliance with Laws, Etc. Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all material contracts to which it is a party and all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, except in each case to the extent that failure to do so is not reasonably likely to result in a Material Adverse Effect; provided, however, that neither the Borrower nor any of its Material Subsidiaries shall be required to comply with any applicable laws, rules, regulations or orders to the extent that the validity thereof or the application thereof to the Borrower or its Subsidiary, as applicable, is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained to the extent required by generally accepted accounting principles.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Material Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property, except in each case to the extent that failure to do so is not reasonably likely to result in a Material Adverse Effect; provided, however, that neither the Borrower nor any of its Material Subsidiaries shall be required to pay or discharge any such tax, assessment, charge, levy or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained to the extent required by generally accepted accounting principles, unless and until any Lien resulting therefrom attaches to its property and becomes enforceable against its other creditors.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, material rights (charter and statutory) and material franchises; provided, however, that (i) the Borrower may consummate any merger or consolidation permitted under Section 5.02(b) and (ii) subject only to Section 5.02(c), any Subsidiary may merge, consolidate or liquidate, or be sold or otherwise disposed of or sell or otherwise dispose of its assets and provided further that neither the Borrower nor any of its Material Subsidiaries shall be required to preserve any right or franchise if (x) the Board of Directors of the Borrower or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the

business of the Borrower or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Borrower and its Subsidiaries taken as a whole or the Lenders or

(y) such right or franchise shall be taken or transferred pursuant to the exercise by any Person of the power of eminent domain or action in lieu of or in settlement of such exercise.

(e) Visitation Rights. At any reasonable time and from time to time, subject to reasonable prior notice to the Borrower, permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Material Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Material Subsidiaries with any of their officers or directors and with their independent certified public accountants; provided that the Borrower shall be afforded an opportunity to be present during any such discussion with its independent certified public accountants.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in accordance with generally accepted accounting principles in effect from time to time.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Material Subsidiaries to maintain and preserve, all of its properties (including, without limitation, all patents, trademarks and other intellectual property) that are material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(h) Transactions with Affiliates. Conduct, and cause each of its Material Subsidiaries to conduct, all material transactions otherwise permitted under this Agreement with any of their Affiliates (other than transactions between the Borrower and any of its Wholly Owned Subsidiaries or between any such Wholly Owned Subsidiaries; provided that any Debt (other than Capitalized Leases) of any such Wholly Owned Subsidiary owing to any third party other than the Borrower or another of its Wholly Owned Subsidiaries does not exceed 5% of each Subsidiary's Capitalization) on terms that are fair and reasonable and no less favorable to the Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate; provided, however, that, notwithstanding the foregoing, (i) the Borrower shall be permitted to continue its present intercompany loan program pursuant to which the Borrower makes loans to Subsidiaries at rates of interest based upon the Borrower's cost of capital and (ii) transactions between the Borrower and Subsidiaries, or between Subsidiaries, conducted at cost, shall be permitted.

(i) Reporting Requirements. Furnish to the Lenders:

(i) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Borrower, Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such quarter and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments) by the chief accounting officer of the Borrower as having been prepared in accordance with generally accepted accounting principles and certificates of the chief financial officer of the Borrower as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03, provided that in the event of any change in GAAP used in the preparation of such financial statements, the Borrower shall also provide, if necessary for the determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP;

(ii) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, (A) a copy of the annual audit report for such year for the Borrower and its Subsidiaries, containing Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year, in each case accompanied by an opinion (without material qualification) by Arthur Andersen, LLP or other independent public accountants acceptable to the Required Lenders, provided that in the event of any change in GAAP used in the preparation of such financial statements, the Borrower shall also provide, if necessary for the determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP and (B) consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and consolidating statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year;

(iii) as soon as possible and in any event within three Business Days after any executive officer of the Borrower obtains knowledge of the occurrence of any Default or any event, development or occurrence reasonably likely to have a Material Adverse Effect continuing on the date of such statement, a statement of the chief financial officer of the Borrower setting forth details of such Default or event, development or occurrence reasonably likely to have a Material Adverse Effect and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports that the Borrower sends to its security holders generally, and copies of all reports and effective registration statements that the Borrower or any Subsidiary files with the Securities and Exchange Commission or any national securities exchange, other than registration statements filed on Form S-8, any Form 11-K or any reports or filings made pursuant to PUHCA;

(v) promptly after the commencement thereof (or, if later, the date that the Borrower determines that the applicable action or proceeding is of the type described in Section 4.01(g)), notice of all actions and proceedings before any court, governmental agency or arbitrator against, or to the Borrower's knowledge affecting the Borrower or any of its Material Subsidiaries of the type described in Section 4.01(g);

(vi) promptly and in any event within 15 days after the Borrower or within 30 days after any ERISA Affiliate knows or has reason to know that any ERISA Event has occurred which event has resulted or could reasonably be expected to result in liability exceeding \$10,000,000, a statement of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, that the Borrower or such ERISA Affiliate has taken and proposes to take with respect thereto;

(vii) promptly and in any event within three Business Days after receipt thereof by the Borrower or any ERISA Affiliate, copies of each notice from the PBGC stating its intention to terminate any ERISA Plan or to have a trustee appointed to administer any ERISA Plan;

(viii) promptly and in any event within 20 days after the receipt thereof by the Borrower or within 30 days after the receipt thereof by any ERISA Affiliate, a copy of the annual actuarial report for each ERISA Plan the unfunded current liability of which exceeds \$10,000,000;

(ix) promptly and in any event within five Business Days after receipt thereof by

the Borrower or within 10 Business Days after receipt thereof any ERISA Affiliate from the sponsor of a Multiemployer Plan, copies of each notice concerning (A) the imposition of Withdrawal Liability by any such Multiemployer Plan on the Borrower or an ERISA Affiliate in excess of \$15,000,000 or the incurrence of any current payment obligations on the Borrower or such ERISA Affiliate in excess of \$5,000,000, (B) the reorganization or termination, within the meaning of Title IV of ERISA, of any such Multiemployer Plan that is reasonably likely to result in the imposition of liability on the Borrower or an ERISA Affiliate in excess of \$15,000,000 or the incurrence of any current payment obligations on the Borrower or such ERISA Affiliate in excess of \$5,000,000 or (C) the amount of liability incurred, or that may be incurred, by the Borrower or any ERISA Affiliate in connection with any event described in clause (A) or (B);

(x) promptly after the assertion or occurrence thereof, notice of any Environmental Action against or of any noncompliance by the Borrower or any of its Material Subsidiaries with any Environmental Law or Environmental Permit that would reasonably be expected to have a Material Adverse Effect;

(xi) promptly and in any event within two Business Days after receipt by the Borrower of notice of any change in the Borrower's unsecured long-term debt ratings by Moody's or S&P; and

(xii) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will not:

(a) Liens. Create or suffer to exist, or permit any of its Material Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Material Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens,

(ii) Liens to secure obligations of the Borrower's Subsidiaries owing to the Borrower or to other direct Wholly Owned Subsidiaries of the Borrower that have no debt outstanding other than to the Borrower,

(iii) Liens existing on the date hereof (and not otherwise included in any other subsection of this Section 5.02(a)) and listed on Schedule 5.02(a) hereto,

(iv) Liens on any property acquired by the Borrower or any of its Material Subsidiaries after the date hereof that are existing at the time such property is so acquired and not created in contemplation of the acquisition of such property,

(v) Liens on any property of any Person that becomes a Subsidiary of the Borrower after the date hereof that are existing at the time such Person becomes a Subsidiary, other than any such Lien created in contemplation of such Person becoming a Subsidiary,

(vi) Liens securing Debt of the Borrower or any of its Material Subsidiaries of the type described in Sections 3.03 and 3.04 of the Indenture; provided that, for purposes of this

clause (vi), (A) references to "Secured Debt", "Funded Debt" or "Debt" in Sections 3.03 and 3.04 of the Indenture shall be deemed to refer to "Debt" as defined herein, (B) references to the "Company" in Section 3.03 of the Indenture shall be deemed to refer to the "Borrower" or any "Material Subsidiary" as defined herein, and (C) references to "Significant Subsidiary" in Section 3.04 of the Indenture shall be deemed to refer to any "Material Subsidiary" as defined herein,

(vii) assignments of receivables for collection in the ordinary course,

(viii) sales of receivables in asset securitization transactions,

(ix) other Liens securing Debt and other obligations in an aggregate principal amount not to exceed \$25,000,000 outstanding,

(x) other Liens and assignments, not securing Debt for borrowed money, which, individually or in aggregate, are not reasonably likely to have a Material Adverse Effect, provided that the total aggregate principal amount of Debt or other obligations secured by Liens and assignments under this clause (x) shall not exceed \$50,000,000 outstanding, and

(xi) except as otherwise restricted or prohibited in the Indenture, the replacement, extension or renewal of any Lien permitted above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby.

(b) Mergers. Merge or consolidate with or into, or sell, lease, transfer or otherwise dispose of its property or assets as, or substantially as, an entirety in a single transaction or a series of transactions to, any Person, except that the Borrower may merge with any other Person so long as the Borrower is the surviving corporation (or the surviving corporation shall be approved by Lenders holding 80% of the Revolving Credit Commitments), provided, in each case, that (i) no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom and (ii) the Borrower shall be able to satisfy all of the conditions set forth in Section 3.02 at the time of such proposed transaction and immediately thereafter.

(c) Sale of Assets. Sell, convey, transfer or otherwise dispose of (whether in one transaction or in a series of transactions), without the written consent of the Required Lenders, (i) more than 25% of its equity investments (measured as of the date of such sale, conveyance, transfer or other disposition) in or (ii) more than 25% of the fair market value (measured as of the date of such sale, conveyance, transfer or other disposition) of the assets (excluding accounts receivable and current inventory held for sale) of either one of the following groups:

Group I: Columbia Gas Transmission Corporation; Columbia Gulf Transmission Company

Group II: Columbia Gas of Kentucky, Inc.; Columbia Gas of Maryland, Inc.; Columbia Gas of Ohio, Inc.; Columbia Gas of Pennsylvania, Inc.; Columbia Gas of Virginia, Inc.;

provided, however, that in no event may the aggregate of all sales, conveyances, transfers and other dispositions by the Borrower from the Effective Date through the Final Maturity Date result in the sale, conveyance, transfer or other disposition, without the written consent of the Required Lenders, of (i) more than 25% of its equity investments (measured as of the date hereof) in or (ii) more than 25% of the

fair market value (measured as of the date hereof) of the assets (excluding accounts receivable and current inventory held for sale) of either one of the above groups; and provided further, that any sales, conveyances, transfers and other dispositions shall not be counted for purposes of this covenant to the extent that proceeds therefrom are reinvested in any of the entities listed in Group I or Group II and only to the extent that any debt incurred by such entity in connection with such reinvestment would have been permitted if the assets comprising such reinvestment were assets held as of the date of this Agreement; and provided still further that, in any calendar year, sales, conveyances, transfers or other dispositions of property in the ordinary course of business with a value of up to \$10,000,000 collectively for Groups I and II shall not be counted for purposes of this covenant.

(d) Limitation on Subsidiary Debt. Permit its Significant Subsidiaries (as defined in the Indenture) to incur any Funded Debt (as defined in the Indenture) other than as permitted in the Indenture.

(e) Limitation on Material Subsidiary Funding. Enter into any agreement or understanding, and shall not permit any Material Subsidiary to (except with the Borrower) enter into any agreement or understanding, which by its terms limits, in any material respect, a Material Subsidiary's ability to make funds available to the Borrower (whether by way of dividend or other distribution or by way of repayment of intercompany indebtedness); provided, however, that the foregoing shall not prohibit (i) agreements and understandings to which a Subsidiary is a party on the date such Subsidiary first becomes a Subsidiary, (ii) customary provisions in leases and other contracts that prohibit the assignment thereof and (iii) agreements or understandings in connection with Liens permitted hereunder that apply only to the property subject to such Liens.

SECTION 5.03. Leverage Ratio. So long as any Advance shall remain unpaid or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will maintain a ratio of Total Debt to the sum of Total Debt plus Tangible Net Worth of not greater than the amount set forth below for each relevant period set forth below:

Relevant Period -----	Ratio -----
Effective Date - 12/30/98	
0.675:1.00	
12/31/98 - 12/30/00	
0.650:1.00	
12/31/00 and thereafter	
0.625:1.00	

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Advance when the same becomes due and payable; or the Borrower shall fail to pay any interest on any Advance or make any other payment of fees or other amounts payable under this Agreement, any Loan Document or any Five-Year Loan Document within five Business Days after the same becomes due and payable; or

(b) any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in connection with or pursuant to this Agreement shall prove to have been incorrect in any material respect when made; or

(c) (i) the Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as it applies to the Borrower's existence) or (h), 5.01(i)(vi) through (ix), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(e) or (i) (other than 5.01(i)(vi) through (ix)) and such failure shall remain unremedied for 10 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender and (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed and such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or

(d) (i) the Borrower or any of its Material Subsidiaries (other than any Project Finance Subsidiaries) shall fail to pay any principal of or premium or interest on any Debt that is outstanding in a principal amount of at least \$30,000,000 in the aggregate (but excluding Debt outstanding hereunder) of the Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, the maturity of such Debt; or (iii) any such Debt shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; provided, however, that the foregoing clauses (ii) and (iii) shall not apply to any Debt that becomes due or is required to be repaid as a result of the sale or other disposition of, or any casualty or condemnation with respect to, any property securing such Debt, the voluntary termination of any Capitalized Lease, or other circumstances that are not in the nature of a default by or altered circumstances of the obligor in respect of such Debt; or

(e) the Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property under any such law and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) any final judgment or non-appealable order for the payment of money in excess of \$30,000,000 shall be rendered against the Borrower or any of its Material Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) any non-monetary judgment or order shall be rendered against the Borrower or any of its Subsidiaries that could be reasonably expected to have a Material Adverse Effect, and there shall be

any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) (i) any Person or two or more Persons acting in concert (excluding any thrift plan or any other employee benefit plan of the Borrower) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of Voting Stock of the Borrower (or other securities convertible into such Voting Stock) representing 20% or more of the combined voting power of all Voting Stock of the Borrower (determined on a fully diluted basis); or (ii) during any period of up to 24 consecutive months, commencing after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of the Borrower shall cease for any reason to constitute a majority of the board of directors of the Borrower (it being understood that, for purposes of this clause, individuals elected to become new directors of the Borrower during a 24-month period shall be deemed to have been directors of the Borrower at the beginning of such period if the election or nomination of such individuals as directors was approved by a majority of those individuals who at the beginning of such 24-month period were directors of the Borrower and any new directors so approved); or (iii) any Person or two or more Persons acting in concert shall have acquired by contract or otherwise (excluding employment contracts with officers of the Borrower), or shall have entered into a contract or arrangement (excluding employment contracts with officers of the Borrower) that, upon consummation, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Borrower; or

(i) the Borrower or any of its ERISA Affiliates shall incur, or, in the reasonable opinion of the Required Lenders, shall be reasonably likely to incur liability in excess of \$30,000,000 in the aggregate as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of the Borrower or any of its ERISA Affiliates from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

ARTICLE VII

THE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining

from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in

Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of the Borrower or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect to its Revolving Credit Commitment the Advances made by it and the Note issued to it, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify the Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Revolving Credit Notes then held by each of them (or if no Revolving Credit Notes are at the time outstanding or if any Revolving Credit Notes are held by Persons that are not Lenders, ratably according to the respective amounts of their Revolving Credit Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each

Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

SECTION 7.06. Successor Agent. The Agent may resign at any time by giving ten days' written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent with the consent of the Borrower (which consent shall not be unreasonably withheld). If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders with the consent of the Borrower (which consent shall not be unreasonably withheld), appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 7.07. Senior Managing Agents and Co-Documentation Agents as Lenders. No Senior Managing Agent or Co-Documentation Agent shall have any rights, responsibilities or obligations other than as a Lender hereunder.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. Other than as specified in Section 2.01(b) or 5.02(b), no amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) waive any of the conditions specified in Section 3.01, (b) increase the Revolving Credit Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable to the Lenders hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable to the Lenders hereunder, (e) change the percentage of the Revolving Credit Commitments or of the aggregate unpaid principal amount of the Notes, or the number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder or (f) amend this Section 8.01; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note.

SECTION 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic or telex communication) and mailed, telecopied, telegraphed, telexed or delivered, if to the Borrower, at its address at 12355 Sunrise Valley Drive, Suite 300, Reston, VA 20191, Attention: Treasurer; if to any Initial Lender, at its Domestic Lending Office specified opposite its name

on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at 2 Penn's Way, Suite 200, New Castle, Delaware 19720, Attention: Pia Saenganan with a copy to Citicorp Securities, Inc. 1200 Smith Street, Suite 2000, Houston, Texas 77002, Attention: David Gorte, or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed, telecopied, telegraphed or telexed, be effective when deposited in the mails, telecopied, delivered to the telegraph company or confirmed by telex answerback, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses; Indemnification; Limitation of Liability. (a) The Borrower agrees to pay on demand all costs and expenses of the Agent and the Arranger in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, (i) all due diligence, syndication (including expenses related to printing, distribution and bank meetings), transportation, computer and duplication expenses and (ii) the reasonable fees and expenses of counsel for the Agent and the Arranger with respect thereto and with respect to advising the Agent and the Arranger as to their respective rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent, the Arranger and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless the Agent, the Arranger, each Managing and Co-Syndication Agent, each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and reasonable expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.06(d) or (e), 2.08 or 2.10, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any

additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.10, 2.13 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

SECTION 8.05. Right of Setoff. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Notes due and payable pursuant to the provisions of

Section 6.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Note held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Lender under this Section are in addition to other rights and remedies (including, without limitation, other rights of setoff) that such Lender and its Affiliates may have.

SECTION 8.06. Binding Effect. This Agreement shall become effective (other than Section 2.01, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07. Assignments, Designations and Participations.

(a) Each Lender may, upon the written consent of the Borrower (which consent shall not be unreasonably withheld) and, if demanded by the Borrower (following a demand by such Lender pursuant to Section 2.10 or 2.13 or notice from such Lender pursuant to Section 2.11) upon at least five Business Days' notice to such Lender and the Agent, will, assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment, the Advances owing to it and the Note or Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement, (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Revolving Credit Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than the lesser of (A) 1% of the total Revolving Credit Commitment, (B) \$5,000,000 or (C) the full amount of such assigning Lender's Revolving Credit Commitment, (iii) unless an assigning Lender assigns the full amount of its Revolving Credit Commitment, such assigning Lender may not assign Revolving Credit Commitments such that its remaining Revolving Credit Commitments are in an amount less than the lesser of (A) 1% of the total Revolving Credit Commitment or (B) \$5,000,000; (iv) each such assignment shall be to an Eligible Assignee, (v) each such assignment made as a result of a demand by the Borrower pursuant to this Section 8.07(a) shall be arranged by the Borrower after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this

Agreement, (vi) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrower pursuant to this Section 8.07(a) unless and until such Lender shall have received one or more payments from either the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement, and (vii) the parties to each such assignment shall provide the Agent with written notice of such assignment and shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Revolving Credit Note subject to such assignment and a processing and recordation fee of \$3,000 (provided, that in the case of a ratable assignment of a Lender's Revolving Credit Commitments and such Lender's commitments under the Five-Year Loan Documents, such processing and recordation fee shall only be payable once with respect to both assignments); provided further that in the case of an assignment by any Lender to an Affiliate of such Lender, or an assignment by any Lender to any other Lender, the Borrower must be given written notice thereof, but the consent of the Borrower shall not be required. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Revolving Credit Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, subject to the Borrower's consent thereto, (if required), (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within ten Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Revolving Credit Note a new Note to the order of such Eligible Assignee in an amount equal to the Revolving Credit Commitment assumed by it pursuant

to such Assignment and Acceptance and, if the assigning Lender has retained a Revolving Credit Commitment hereunder, a new Revolving Credit Note to the order of the assigning Lender in an amount equal to the Revolving Credit Commitment retained by it hereunder. Such new Revolving Credit Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Revolving Credit Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A hereto.

(d) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Revolving Credit Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment, the Advances owing to it and the Note or Notes held by it); provided, however, that

(i) such Lender's obligations under this Agreement (including, without limitation, its Revolving Credit Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee, designee or participant or proposed assignee, designee or participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee, designee or participant or proposed assignee, designee or participant shall agree to preserve the confidentiality of any Confidential Information relating to the Borrower received by it from such Lender on the terms set forth in Section 8.08.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and the Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.08. Confidentiality. Neither the Agent nor any Lender shall disclose any Confidential Information to any other Person without the consent of the Borrower, other than (a) to the Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(i), to actual or prospective assignees and participants, provided that any Person to whom disclosure is made shall agree to be bound by this Section, (b) as required by any law, rule or regulation or judicial process, provided that, to the extent practicable, prior notice of such disclosure shall be given to the Borrower, (c) to any rating agency when required by it, provided that, prior to any such disclosure, such rating agency shall undertake

to preserve the confidentiality of any Confidential Information relating to the Borrower received by it from such Lender, and (d) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking. Each Lender and each other Person required to preserve the confidentiality of Confidential Information hereunder shall use such information only for purposes of evaluating extensions of credit to the Borrower and its Subsidiaries.

SECTION 8.09. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 8.10. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.11. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court for any thereof, in any action or proceeding arising out of or relating to this Agreement or the Notes, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 8.12. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

COLUMBIA ENERGY GROUP

By

Title:

**CITIBANK, N.A.,
as Administrative Agent**

By /s/ Mark Stanfield Packard

*Name: MARK STANFIELD PACKARD
Title: Vice President*

Initial Lenders

*Revolving Credit
Commitment*

\$50,000,000.00

CITIBANK, N.A.,

By /s/ Mark Stanfield Packard

*Name: MARK STANFIELD PACKARD
Title: Vice President*

*Revolving Credit
Commitment*

\$50,000,000.00

PNC BANK, NATIONAL ASSOCIATION

By /s/ Thomas A. Majeski

*Name: Thomas A. Majeski
Title: Vice President*

Initial Lenders (continued)

Revolving Credit
Commitment

\$50,000,000.00

THE CHASE MANHATTAN BANK

By /s/ Mary Jo Woodford

Name: MARY JO WOODFORD
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$50,000,000.00

MORGAN GUARANTY
TRUST COMPANY OF NEW YORK

By /s/ Kathryn Sayko-Yanes

Name: KATHRYN SAYKO-YANES
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$33,333,333.33

BANK OF MONTREAL

By /s/ Elizabeth F. Trapp

Name: Elizabeth F. Trapp
Title: Director

Revolving Credit
Commitment

\$33,333,333.33

CANADIAN IMPERIAL BANK OF COMMERCE

By /s/ Michael A.G. Corkum

Name: Michael A.G. Corkum
Title: AUTHORIZED SIGNATORY

Initial Lenders (continued)

Revolving Credit
Commitment

\$25,000,000.00

BANKERS TRUST COMPANY

By /s/ Mr. Marcus M. Tarkington

Name: Mr. Marcus M. Tarkington
Title: Principal

Revolving Credit
Commitment

\$10,000,000.00

BANK OF TOKYO-MITSUBISHI TRUST COMPANY

By /s/ J. A. Don

Name: J. A. DON
Title: VP & MGR

Revolving Credit
Commitment

\$6,666,666.66

UNION BANK OF CALIFORNIA

By /s/ David A. Musicant

Name: David A. Musicant
Title: Vice President

Revolving Credit
Commitment

\$16,666,666.67

THE FIRST NATIONAL BANK OF CHICAGO

By /s/ Madeleine N. Pember

Name: MADELEINE N. PEMBER
Title: Assistant Vice President

Initial Lenders (continued)

Revolving Credit
Commitment

\$16,666,666.67

THE FIRST NATIONAL BANK OF MARYLAND

By /s/ Shaun E. Murphy

Name: Shaun E. Murphy
Title: Senior Vice President

Revolving Credit
Commitment

\$16,666,666.67

FIRST UNION NATIONAL BANK

By /s/ Michael J. Kolosowsky

Name: MICHAEL J. KOLOSOWSKY
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$16,666,666.67

NATIONAL CITY BANK

By /s/ Jeffrey L. Hawthorne

Name: JEFFREY L. HAWTHORNE
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$15,000,000.00

COMMERZBANK

By /s/ Dempsey L. Gable

Name: Dempsey L. Gable
Title: Senior Vice President

/s/ Andrew Kjoller

Andrew Kjoller
Assistant Treasurer

Initial Lenders (continued)

Revolving Credit
Commitment

\$10,000,000.00

ARAB BANK, PLC

By /s/ Michael Barker

Name: Michael Barker
Title:

Revolving Credit
Commitment

\$10,000,000.00

THE BANK OF NOVA SCOTIA

By /s/ F. C. Ashby

Name: F. C. H. Ashby
Title: Senior Manager
Loan Operations

Revolving Credit
Commitment

\$10,000,000.00

CRIDIT AGRICOLE INDOSUEZ

By /s/ Dean Balice

Name: DEAN BALICE
Title: SENIOR VICE PRESIDENT
BRANCH MANAGER

By /s/ David Eouhl

Name: DAVID EOUHL F.V.P.
Title: HEAD OF CORPORATE BANKING
CHICAGO

Revolving Credit
Commitment

\$10,000,000.00

CRESTAR BANK

By /s/ Nancy R. Petrash

Name: Nancy R. Petrash
Title: Senior Vice President

Initial Lenders (continued)

Revolving Credit
Commitment

\$10,000,000.00

BANCA MONTE DEI PASCHI DI SIENA, S.p.A.

By /s/ S. M. Sondak

Name: S. M. Sondak
Title: F.V.P. & Dep. General Manager

By /s/ Brian R. Landy

Name: Brian R. Landy
Title: Vice President

Revolving Credit
Commitment

\$10,000,000.00

SOCIETE GENERALE

By /s/ Gordon Eadon

Name: Gordon Eadon
Title: Vice President

CREDIT AGREEMENT

Dated as of March 11, 1998

Among

COLUMBIA ENERGY GROUP,

as Borrower,

and

THE INITIAL LENDERS NAMED HEREIN,

as Initial Lenders,

and

CITIBANK, N.A.,

as Administrative and Syndication Agent,

and

**THE CHASE MANHATTAN BANK, MORGAN GUARANTY
TRUST COMPANY OF NEW YORK AND PNC BANK, NATIONAL ASSOCIATION,**

as Co-Documentation Agents,

and

**BANK OF MONTREAL, CANADIAN IMPERIAL BANK OF COMMERCE,
THE CHASE MANHATTAN BANK, CITIBANK, N.A.,
MORGAN GUARANTY TRUST COMPANY OF NEW YORK AND PNC BANK, NATIONAL ASSOCIATION,**

as Co-Arrangers,

and

**BANK OF MONTREAL, BANKERS TRUST COMPANY
AND CANADIAN IMPERIAL BANK OF COMMERCE,**

as Senior Managing Agents,

and

**BANK OF TOKYO-MITSUBISHI TRUST COMPANY,
COMMERZBANK, THE FIRST NATIONAL BANK OF CHICAGO,
THE FIRST NATIONAL BANK OF MARYLAND, FIRST UNION NATIONAL BANK,
NATIONAL CITY BANK AND UNION BANK OF CALIFORNIA,**

as Co-Agents

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**COLUMBIA ENERGY GROUP
CREDIT AGREEMENT**

Dated as of March 11, 1998

Columbia Energy Group, a Delaware corporation (formerly known as The Columbia Gas System, Inc.) (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, and Citibank, N.A. ("Citibank"), as administrative agent and syndication agent (the "Agent") for the Lenders (as hereinafter defined), agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"364-Day Credit Agreement" means the Credit Agreement dated as of March 11, 1998 among the Borrower, the Agent and the lenders named therein.

"364-Day Loan Documents" means the 364-Day Credit Agreement and the 364-Day Notes.

"364-Day Notes" means each of the promissory notes of the Borrower executed pursuant to the 364-Day Credit Agreement.

"Adjusted CD Rate" means, for any Interest Period for each CD Rate Advance comprising part of the same Revolving Credit Borrowing, an interest rate per annum equal to the sum of:

(a) the rate per annum obtained by dividing (i) the rate of interest determined by the Agent to be the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the consensus bid rate determined by the Agent for the bid rates per annum, at 9:00 A.M. (New York City time) (or as soon thereafter as practicable) on the first day of such Interest Period, of two or more New York certificate of deposit dealers of recognized standing selected by the Agent for the purchase at face value of certificates of deposit of each Reference Bank in an amount substantially equal to such Reference Bank's CD Rate Advance comprising part of such Revolving Credit Borrowing and with a maturity equal to such Interest Period, by (ii) a percentage equal to 100% minus the Adjusted CD Rate Reserve Percentage for such Interest Period, plus

(b) the Assessment Rate for such Interest Period.

"Adjusted CD Rate Reserve Percentage" for any Interest Period for all CD Rate Advances comprising part of the same Revolving Credit Borrowing means the reserve percentage applicable on the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) U.S. dollar nonpersonal time deposits in the United States and with a maturity equal to such Interest Period.

"Advance" means a Revolving Credit Advance, a Swing Line Advance, a Letter of Credit

Advance or a Competitive Bid Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to vote 20% or more of the Voting Stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agent's Account" means the account of the Agent maintained by the Agent at Citibank with its office at 2 Penn's Way, Suite 200, New Castle, Delaware 19720.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance or a CD Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and, in the case of a Competitive Bid Advance, the office of such Lender notified by such Lender to the Agent as its Applicable Lending Office with respect to such Competitive Bid Advance.

"Applicable Margin" means, as of any date, a percentage per annum determined by reference to the public debt rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances	Applicable Margin for CD Rate Advances	Applicable Margin for Facility Fee
Level 1 AA-/AA3 or higher	0	.115%	.24%	.065%
Level 2 A+/A/A1/A2	0	.15%	.275%	.07%
Level 3 A-/A3	0	.17%	.295%	.09%
Level 4 BBB+/Baa1	0	.19%	.315%	.11%
Level 5 BBB/Baa2	0	.235%	.36%	.13%
Level 6 BBB-/Baa3	0	.285%	.41%	.15%
Level 7 BB+/BB/Bal/Ba2	0	.5%	.625%	.20%
Level 8 BB-/Ba3 or lower	0	1.00%	1.125%	.50%

For purposes of this definition, "public debt rating" means, as of any date, the rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower. For purposes of the foregoing, (a) if only one

of S&P and Moody's shall have in effect a public debt rating, the Applicable Margin shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a public debt rating, the Applicable Margin will be set in accordance with Level 8 under the definition of "Applicable Margin"; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin shall be determined by reference to the higher rating; provided, however, that (i) if the ratings are different by two or more levels, the Applicable Margin shall be determined by reference to the rating that is one rating lower than the higher rating and (ii) if one rating is investment grade (BBB-/Baa3 or better) and the other rating is non-investment grade, (BB+/Ba1 or lower), then the Applicable Margin shall be determined by reference to the higher of (A) the Applicable Margin yielded by the previous exception and (B) except with respect to Base Rate Advances, an increase of 5 basis points per annum in each Applicable Margin for Level 6; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the public debt rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"Appropriate Lender" means, at any time, with respect to (a) the Revolving Credit Facility, a Lender that has a Revolving Credit Commitment with respect to such Facility at such time, (b) the Letter of Credit Facility, (i) any Issuing Lender and (ii) if the other Lenders have made Letter of Credit Advances pursuant to Section 2.04(b) that are outstanding at such time, each such other Lender and (c) the Swing Line Facility, a Swing Line Bank that has a Swing Line.

"Arranger" means Citicorp Securities, Inc., as arranger of the syndicate of Initial Lenders hereunder.

"Assessment Rate" for any Interest Period for all CD Rate Advances comprising part of the same Revolving Credit Borrowing means the annual assessment rate estimated by the Agent on the first day of such Interest Period for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"Available Amount" of any Letter of Credit means, at any time, the maximum amount or the U.S. Dollar Equivalent of the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

"Bankruptcy Code" means the Bankruptcy Reform Act of 1978, 11 U.S.C. Sections 101 et seq., as amended from time to time.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

- (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate; and
- (b) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.07(a)(i).

"Borrowing" means a Revolving Credit Borrowing, a Swing Line Borrowing or a Competitive Bid Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"Canadian Dollar" means lawful money of Canada.

"Canadian Dollar Letter of Credit" means a Letter of Credit issued hereunder in Canadian Dollars.

"Canadian Dollar Letter of Credit Advance" means a Letter of Credit Advance hereunder made in Canadian Dollars.

"Capitalized Leases" has the meaning specified in clause (e) of the definition of "Debt".

"Capitalization" means, with respect to any Subsidiary, the total amount of liabilities of such Subsidiary plus the total amount of equity of such Subsidiary all as determined in accordance with GAAP.

"Cash Collateral Account" means an interest bearing cash collateral account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon such terms as may be satisfactory to the Agent.

"CD Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.07(a)(iii).

"CGTC" means Columbia Gas Transmission Corporation, a wholly-owned subsidiary of the Borrower as of the date hereof.

"Citibank" means Citibank, N.A.

"Co-Documentation Agents" means The Chase Manhattan Bank, Morgan Guaranty Trust Company of New York and PNC Bank, National Association.

"Competitive Bid Advance" means an advance by a Lender to the Borrower as part of a Competitive Bid Borrowing resulting from the competitive bidding procedure described in Section 2.03 and refers to a Fixed Rate Advance or a LIBO Rate Advance.

"Competitive Bid Borrowing" means a borrowing consisting of simultaneous Competitive Bid Advances from each of the Lenders whose offer to make one or more Competitive Bid Advances as part of such borrowing has been accepted under the competitive bidding procedure described in Section 2.03.

"Competitive Bid Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit A-2 hereto, evidencing the indebtedness of the Borrower to such Lender resulting from a Competitive Bid Advance made by such Lender.

"Competitive Bid Reduction" has the meaning specified in Section 2.01.

"Confidential Information" means information that the Borrower furnishes to the Agent or any Lender in a writing designated as confidential, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Agent or such Lender

from a source other than the Borrower or any of its Affiliates.

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of another Type pursuant to Section 2.08 or 2.10.

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, excluding (x) such obligations arising in the ordinary course of business and maturing six months or less from the date of creation thereof; and (y) such obligations arising in the ordinary course of business and maturing in more than six months if in the aggregate on a consolidated basis for the Borrower and its Subsidiaries such obligations are less than \$30,000,000, (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases ("Capitalized Leases") (provided that the value of any Capitalized Lease shall be equal to the value of such Capitalized Lease that is or should be capitalized in accordance with GAAP), (f) an amount equal to the present value (discounted at the then applicable five-year treasury bond rate) of operating lease obligations of such Person in excess of \$30,000,000 in any calendar year, disregarding for this purpose leases other than those with an initial or remaining noncancellable lease term in excess of one year, (g) to the extent required to be reflected on the balance sheet of such Person prepared in accordance with GAAP or in the footnotes thereto, all Debt of others directly and indirectly guaranteed by such Person, but only to the extent of such direct or indirect guarantee, and only to the extent that in the aggregate on a consolidated basis for the Borrower and its Subsidiaries such obligations exceed \$30,000,000 and (h) to the extent required to be reflected on the balance sheet of such Person prepared in accordance with GAAP or in the footnotes thereto, all Debt referred to in clauses (a) through (g) above secured by any Lien on property owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt, but only to the extent of the book value of the property subject to such Lien.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Designated Bidder" means (a) an Eligible Assignee or (b) a special purpose corporation that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and that issues (or the parent of which issues) commercial paper rated at least "Prime-1" (or the then equivalent grade) by Moody's or "A-1" (or the then equivalent grade) by S&P and that, in the case of either clause (a) or (b), (i) is organized under the laws of the United States or any State thereof, (ii) shall have become a party hereto pursuant to Sections 8.07(d), (e) and (f) and (iii) is not otherwise a Lender.

"Designation Agreement" means a designation agreement entered into by a Lender (other than a Designated Bidder) and a Designated Bidder, and accepted by the Agent, in substantially the form of Exhibit D hereto.

"Disclosed Litigation" has the meaning specified in Section 3.01(b).

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender

specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (i) a Lender; (ii) an Affiliate of a Lender; (iii) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (iv) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$1,000,000,000; (v) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, and having total assets in excess of \$1,000,000,000 so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (v); (vi) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; (vii) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of \$1,000,000,000 and (viii) any other Person approved by the Agent and the Borrower, such approval not to be unreasonably withheld or delayed; provided, however, that neither the Borrower nor an Affiliate of the Borrower shall qualify as an Eligible Assignee.

"Environmental Action" means any material action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, proceeding, consent order or consent agreement arising pursuant to, or in connection with, an alleged violation of any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any applicable federal, state or local statute, law, ordinance, rule, regulation, code, order, judgment or decree relating to pollution or protection of the environment, health or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, license or other authorization required under any Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person that for purposes of Title IV of ERISA is a member of the Borrower's controlled group, or under common control with the Borrower, within the meaning of Section 414(b) or (c) of the Internal Revenue Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Internal Revenue Code, the entirety of Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any ERISA Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section

4043(b) of ERISA (without regard to subsection (2) of such Section) are met with a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of an ERISA Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such ERISA Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to an ERISA Plan; (c) the provision by the administrator of any ERISA Plan of a notice of intent pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA) to terminate such ERISA Plan pursuant to Section 4041(c) of ERISA; (d) the cessation of operations at a facility of the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any ERISA Plan; (g) the adoption of an amendment to an ERISA Plan requiring the provision of security to such ERISA Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate an ERISA Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042(a) of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, an ERISA Plan; provided, however, that the occurrence of an event or condition described in Section 4042(a)(4) of ERISA shall be an ERISA Event only if (i) the Borrower or any ERISA Affiliate knows or has reason to know thereof or (ii) the PBGC has notified the Borrower or any ERISA Affiliate that it is considering termination of an ERISA Plan on such basis.

"ERISA Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00

A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurodollar Rate Advance comprising part of such Revolving Credit Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period. The Eurodollar Rate for any Interest Period for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.08.

"Eurodollar Rate Advance" means a Revolving Credit Advance that bears interest as provided in Section 2.07(a)(ii).

"Eurodollar Rate Reserve Percentage" of any Lender for any Interest Period for all Eurodollar Rate Advances or LIBO Rate Advances comprising part of the same Borrowing means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so

applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances or LIBO Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Existing Agreement" means the \$1,000,000,000 credit agreement dated as of November 28, 1995 among the Borrower, the Agent and the lender parties thereto.

"Facility" means the Revolving Credit Facility, the Swing Line Facility or the Letter of Credit Facility.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Obligation Letter of Credit" means a standby Letter of Credit other than a Performance Letter of Credit.

"Fixed Rate Advances" has the meaning specified in Section 2.03(a)(i).

"GAAP" has the meaning specified in Section 1.03.

"Hazardous Materials" means (a) petroleum and petroleum products or byproducts, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic under any Environmental Law.

"Indenture" means the indenture dated as November 28, 1995 between the Borrower and Marine Midland Bank, N.A., Trustee, as amended and supplemented to the date hereof.

"Information Memorandum" means the information memorandum dated January 1998 used by the Arranger in connection with the syndication of the Revolving Credit Commitments.

"Initial Swing Line Bank" means either Citibank or PNC Bank.

"Interest Period" means, for each Eurodollar Rate Advance or CD Rate Advance comprising part of the same Revolving Credit Borrowing and each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing, the period commencing on the date of such Eurodollar Rate Advance, CD Rate Advance or LIBO Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance or CD Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances and

CD Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be (a) in the case of a Eurodollar Rate Advance, one, two, three, six, or (with the consent of all Lenders) twelve months, as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select, (b) in the case of a CD Rate Advance, 30, 60, 90 or 180 days as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the second Business Day prior to the first day of such Interest Period, select and (c) in the case of a LIBO Rate Advance, as specified in the applicable Notice of Competitive Bid Borrowing; provided, however, that:

(i) the Borrower may not select any Interest Period that ends after the Termination Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances or CD Rate Advances comprising part of the same Revolving Credit Borrowing or for LIBO Rate Advances comprising part of the same Competitive Bid Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Issuing Lender" means Citibank, Canadian Imperial Bank of Commerce, Morgan Guaranty Trust Company of New York and any other U.S. or Canadian Lender mutually acceptable to the Borrower and the Agent, each as issuer of a Letter of Credit.

"L/C Cash Collateral Account" means the interest-bearing cash collateral account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon such terms as may be satisfactory to the Agent.

"Lenders" means the Initial Lenders, the Issuing Lenders, the Swing Line Bank and each Person that shall become a party hereto pursuant to Section 8.07(a), (b) and (c) and, except when used in reference to a Revolving Credit Advance, a Revolving Credit Borrowing, a Revolving Credit Note, a Revolving Credit Commitment or a related term, each Designated Bidder.

"Letter of Credit" has the meaning specified in Section 2.01(c).

"Letter of Credit Advance" means an advance made by any Issuing Lender pursuant to Section 2.04(b).

"Letter of Credit Facility" means \$300,000,000, as such amount may be reduced pursuant to Section 2.05.

"Letter of Credit Request" has the meaning specified in Section 2.04(a).

"LIBO Rate" means, for any Interest Period for all LIBO Rate Advances comprising part of the same Competitive Bid Borrowing, an interest rate per annum equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00

A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the amount that would be the Reference Banks' respective ratable shares of such Borrowing if such Borrowing were to be a Revolving Credit Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period. The LIBO Rate for any Interest Period for each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.08.

"LIBO Rate Advances" has the meaning specified in Section 2.03(a)(i).

"Lien" means any lien, security interest or other charge or encumbrance of any kind, including, without limitation, any easement, right of way or other encumbrance of record on title to real property.

"Loan Documents" means this Agreement, each Note executed hereunder and each Letter of Credit.

"Material Adverse Change" means any material adverse change in the condition (financial or otherwise) or operations of the Borrower and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the condition (financial or otherwise) or operations of the Borrower and its Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under any Loan Document or (c) the ability of the Borrower to perform its obligations under any Loan Document or any 364-Day Loan Document.

"Material Subsidiaries" means all of the Borrower's Subsidiaries excluding (i) each Subsidiary listed on Schedule II hereto and (ii) any other Subsidiary hereafter formed or acquired unless or until the Borrower's direct or indirect investment therein exceeds \$10,000,000 or the assets of such Subsidiary exceeds \$25,000,000.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in

the event such plan has been or were to be terminated.

"Non-Recourse Debt" means (a) Debt of a Project Finance Subsidiary and (b) Debt of any other Person other than the Borrower or a Material Subsidiary secured by a Lien in or upon one or more assets of such Person where the rights and remedies of the holder of such Debt in respect of such Debt do not extend to any other assets of such Person other than in respect of claims for (a) misapplied moneys, including insurance and condemnation proceeds and security deposits, (b) indemnification by such person in favor of holders of such Debt and their Affiliates in respect of liabilities to third parties, including environmental liabilities, (c) breaches of customary representations and warranties given to the holder of such Debt and (d) such other similar obligations as are customarily excluded from the provisions that otherwise limit the recourse of commercial lenders making so-called "non-recourse" loans to institutional borrowers and trustees and agents for such lender.

"Note" means a Revolving Credit Note, a Competitive Bid Note or a Swing Line Note.

"Notice of Borrowing" means a Notice of Revolving Credit Borrowing, a Notice of Swing Line Borrowing or a Notice of Competitive Bid Borrowing.

"Notice of Competitive Bid Borrowing" has the meaning specified in Section 2.03(a).

"Notice of Revolving Credit Borrowing" has the meaning specified in Section 2.02(a).

"Notice of Swing Line Borrowing" has the meaning specified in Section 2.02(b).

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor).

"Performance Letter of Credit" means a nontransferable standby Letter of Credit to support certain performance obligations, other than any payment obligation, of the Borrower or the Borrower's Subsidiaries.

"Permitted Liens" means (a) Liens for taxes, assessments and governmental charges or levies to the extent not required to be paid under Section 5.01(b) hereof; (b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (d) easements, rights of way and other encumbrances on title to real property that do not themselves render such title unmarketable or materially adversely affect the use of such property for its present purposes; and (e) pledges or deposits to secure the performance of bids, contracts, leases, surety or appeal bonds or other obligations of a like nature.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"PNC Bank" means PNC Bank, National Association.

"Project Finance Subsidiary" means a Subsidiary of the Borrower created and maintained for the sole purpose of developing, constructing, financing, holding or operating, directly or indirectly, a property or project or a group of related properties or projects, either alone or with one or more other Persons, and that (a) does not engage in any business unrelated to such Subsidiary, project or property or the financing thereof, and (b) does not have any assets or Debt other than those related to its interest in

such subsidiary, project or property or the financing thereof.

"Pro Rata Share" of any amount means, with respect to any Lender or any Swing Line Bank, as the case may be, at any time, the product of such amount times, in the case of a Lender, a fraction the numerator of which is the amount of such Lender's Revolving Credit Commitment at such time and the denominator of which is the aggregate amount of the Revolving Credit Commitments of all Lenders at such time, in the case of a Swing Line Bank, a fraction the numerator of which is the amount of such Swing Line Bank's Swing Line Commitment at such time and the denominator of which is the aggregate amount of the Swing Line Commitments of all Swing Line Banks at such time.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended from time to time.

"Reference Banks" means Citibank and Canadian Imperial Bank of Commerce.

"Register" has the meaning specified in Section 8.07(g).

"Required Lenders" means at any time Lenders owed at least 51% of the then aggregate unpaid principal amount of the Revolving Credit Advances owing to Lenders, or, if no such principal amount is then outstanding, Lenders having at least 51% of the Revolving Credit Commitments.

"Revolving Credit Advance" means an advance by a Lender to the Borrower as part of a Revolving Credit Borrowing and refers to a Base Rate Advance, a CD Rate Advance or a Eurodollar Rate Advance (each of which shall be a "Type" of Revolving Credit Advance).

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Revolving Credit Commitment" has the meaning specified in Section 2.01(a).

"Revolving Credit Facility" means, at any time, the aggregate amount of the Lenders' Revolving Credit Commitments at such time.

"Revolving Credit Note" means a promissory note of the Borrower payable to the order of any Lender, in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Revolving Credit Advances made by such Lender.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc.

"Single Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate which is consolidated under GAAP with the accounts of such Person and of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability

company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Swing Line Advance" means an advance made by a Swing Line Bank pursuant to Section 2.01(b).

"Swing Line Banks" means Citibank, PNC Bank and such other Lenders mutually acceptable to the Borrower and the Agent.

"Swing Line Borrowing" means a Borrowing consisting of a Swing Line Advance made by a Swing Line Bank.

"Swing Line Commitment" has the meaning specified in Section 2.01(b).

"Swing Line Cost of Funds Advance" means a Swing Line Advance which shall bear interest, during such periods as such Swing Line Advance is a Swing Line Cost of Funds Advance, at a rate per annum equal, at all times during each Interest Period for such Swing Line Advance, to the sum of (i) the weighted average cost per annum of funds as reasonably determined by each Swing Line Bank making such Advance plus (ii) the greater of (a)

1.00% per annum or (b) two times the sum of (x) the Applicable Margin then in effect for Eurodollar Rate Advances plus (y) the applicable Margin then in effect for the Facility Fee.

"Swing Line Facility" has the meaning specified in Section 2.01(b).

"Swing Line Note" means a promissory note of the Borrower payable to the order of a Swing Line Bank, in substantially the form of Exhibit A-3 hereto, evidencing the Swing Line Advances made by such Swing Line Bank.

"Tangible Net Worth" means, at any time, the excess of total assets over total liabilities (including, without limitation, the aggregate liquidation value of all stock of such Person that is mandatorily redeemable other than for the common stock of such Person or that may be put by the holder to such Person for consideration other than the common stock of such Person, in either case on or before December 31, 2004) of the Borrower and its Subsidiaries at such time, on a Consolidated basis, total assets and total liabilities each to be determined in accordance with GAAP, excluding, however, from the determination of total assets (i) goodwill, organizational expenses, research and development expenses, trademark, trade names, copyrights, patents, patent applications, licenses and rights if any thereof, and other similar intangibles, (ii) all prepaid expenses and deferred charges (other than those of the type incurred by the Borrower and its Subsidiaries in the ordinary course of business on or immediately prior to the date hereof) or unamortized debt discount and expense, (iii) all reserves carried and not deducted from assets, (iv) treasury stock, (v) securities (other than investments which are accounted for pursuant to GAAP as investments or property, plant and equipment) which are not readily marketable, (vi) cash held in a sinking or other analogous fund established for the purpose of redemption, retirement or prepayment of capital stock or indebtedness, except to the extent such capital stock or indebtedness is included in total liabilities pursuant to GAAP, (vii) any write-up in the book value of any asset resulting from a revaluation thereof subsequent to September 30, 1997, other than write-ups of assets of a going concern business made within 12 months after the acquisition of such business pursuant to GAAP, and (viii) any items not included in clauses (i) through (vii) above which are treated as intangibles in conformity with GAAP; provided, however, that notwithstanding the foregoing exclusions, regulatory assets recorded on the Consolidated balance sheet of the Borrower and its Subsidiaries shall not be excluded for purposes of determining Tangible Net Worth.

"Termination Date" means the earlier of (i) the fifth anniversary of the Effective Date and (ii) the date of termination in whole of the Revolving Credit Commitments pursuant to Section 2.05 or 6.01.

"Total Debt" means, at any time, all Debt (including, without limitation, the aggregate outstanding principal amount of all Advances hereunder) of the Borrower and its Subsidiaries, on a Consolidated basis at such time, provided that for purposes of the calculation of Total Debt, any Non-Recourse Debt shall be included only in an amount equal to the lesser of (i) the principal amount of such Non-Recourse Debt and (ii) the equity of the Borrower and its Subsidiaries in the asset or Project Finance Subsidiary, as the case may be, relating to such Non-Recourse Debt.

"Type" has the meaning specified in the definition of "Revolving Credit Advance".

"UCP" has the meaning specified in Section 8.09.

"Unused Revolving Credit Commitment" means at any time, (a) the aggregate Revolving Credit Commitment at such time (after giving effect to the Competitive Bid Reduction, if any, at such time) minus (b) the sum, without duplication, of (i) the aggregate principal amount of all Revolving Credit Advances made by all Lenders and outstanding at such time, plus (ii) the aggregate principal amount of all Swing Line Advances outstanding at such time, plus (iii) (A) the aggregate Available Amount of all Letters of Credit outstanding at such time and (B) the aggregate principal amount of all Letter of Credit Advances made all Issuing Lenders pursuant to Section 2.03(c) and outstanding at such time.

"U.S. Dollar" and the sign "\$" each means lawful money of the United States.

"U.S. Dollar Equivalent" means, with respect to any Canadian Dollar Letter of Credit Advance or the Available Amount of any Canadian Dollar Letter of Credit, on any date of determination, the equivalent in U.S. Dollars of an amount in Canadian Dollars, determined at the rate of exchange quoted by Reuters BOFC page, at 12:00 p.m. (New York City time) on such date of determination, to prime banks in New York City for the spot purchase in the New York foreign exchange market of such amount of Canadian Dollars with U.S. Dollars.

"Voting Stock" means outstanding capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Wholly Owned Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate which is consolidated with the accounts of such Person and of which (or in which) 100% (other than directors' qualifying shares or interests) of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Wholly Owned Subsidiaries or by one or more of such Person's other Wholly Owned Subsidiaries.

"Withdrawal Liability" has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of

periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles, as in effect on the date hereof, consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e) ("GAAP").

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The Advances. (a) The Revolving Credit Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on the signature pages hereof under the caption "Revolving Credit Commitment" or, if such Lender has entered into any Assignment and Acceptance, set forth for such Lender in the Register maintained by the Agent pursuant to Section 8.07(g), as such amount may and shall be reduced pursuant to Section 2.05 (such Lender's "Revolving Credit Commitment"), provided that the aggregate amount of the Revolving Credit Commitments of the Lenders shall be deemed used from time to time to the extent of the aggregate amount of the Competitive Bid Advances then outstanding and such deemed use of the aggregate amount of the Revolving Credit Commitments shall be allocated among the Lenders ratably according to their respective Revolving Credit Commitments (such deemed use of the aggregate amount of the Revolving Credit Commitments being a "Competitive Bid Reduction") and; provided further that no Revolving Credit Borrowing shall be made if, following the making of such Revolving Credit Borrowing the aggregate amount of the Advances then outstanding plus the Available Amount of all Letters of Credit then outstanding would exceed the aggregate amount of the Revolving Credit Commitments of the Lenders. Each Revolving Credit Borrowing (other than a Borrowing the proceeds of which shall be used solely to repay or prepay in full outstanding Swing Line Advances made by any Swing Line Bank or outstanding Letter of Credit Advances made by any Issuing Lender) shall be in an aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof (or, if less, an aggregate amount equal to the amount by which the aggregate amount of a proposed Competitive Bid Borrowing requested by the Borrower exceeds the aggregate amount of Competitive Bid Advances offered to be made by the Lenders and accepted by the Borrower in respect of such Competitive Bid Borrowing, if such Competitive Bid Borrowing is made on the same date as such Revolving Credit Borrowing) and shall consist of Revolving Credit Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits provided herein, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.11 and reborrow under this Section 2.01(a).

(b) The Swing Line Advances. Each Swing Line Bank severally agrees, on the terms and conditions hereinafter set forth, to make Swing Line Advances to the Borrower from time to time on any Business Day from the Effective Date until the Termination Date in an aggregate amount which shall not exceed at any time outstanding the amount set opposite such Swing Line Bank's name on the signature pages hereof under the caption "Swing Line Commitments" (such amount being such Swing Line Bank's "Swing Line Commitment"); provided, however, that the aggregate amount of all Swing Line Advances outstanding at any time shall not exceed \$127,500,000 (the "Swing Line Facility") and, provided further that no Swing Line Borrowing shall be made if, following the making of such Swing Line Borrowing, either (i) the Unused Revolving Credit Commitments of the Lenders shall be less than the aggregate unpaid principal amount of the Swing Line Advances or (ii) the aggregate amount of the Advances then outstanding would exceed the aggregate amount of the Revolving Credit Commitments of the Lenders. No Swing Line Advance shall be used for the purpose of funding

the payment of principal of any other Swing Line Advance. Each Swing Line Borrowing shall be in an amount of \$100,000 or an integral multiple of \$10,000 in excess thereof and shall be made, at the determination of the Borrower, either (i) as a Base Rate Advance, (ii) as a Swing Line Cost of Funds Advance or

(iii) as an Advance bearing interest as the Borrower and the Applicable Swing Line Bank shall otherwise agree. The terms and conditions of the Swing Line Commitment of any Swing Line Bank and the Swing Line Advances made by any such Swing Line Bank (other than terms and conditions relating to the amount of the Swing Line Commitment, interest rate, tenor or term of any such Swing Line Advance) may be modified from the terms and conditions provided herein upon mutual agreement of the Borrower and such Swing Line Bank. Within the limits of the Swing Line Facility and within the limits referred to in this Section, the Borrower may borrow under this Section 2.01(b), repay pursuant to Section 2.06 or repay pursuant to Section 2.11 and reborrow under this Section 2.01(b).

(c) Letters of Credit. Each Issuing Lender severally agrees, on the terms and conditions hereinafter set forth, to issue letters of credit (each a "Letter of Credit") for the account of the Borrower from time to time on any Business Day during the period from the Effective Date until 60 days before the Termination Date; provided that the aggregate Available Amount of all Letters of Credit shall not exceed at any time outstanding the lesser of (i) \$300,000,000 and (ii) the aggregate amount of the Revolving Credit Commitments at such time; provided, further, that no letter of credit shall be issued if issuance thereof would cause the sum of the aggregate outstanding principal amount of all Advances plus the aggregate Available Amount of all Letters of Credit to exceed the Revolving Credit Commitments at such time; provided further that no Issuing Lender shall be required to issue Letters of Credit the undrawn and unexpired aggregate amount of which shall at any time exceed \$100,000,000 without such Lender's written consent; and provided further that each Letter of Credit issued hereunder shall be either a standby Financial Obligation Letter of Credit or a standby Performance Letter of Credit. Classification of a Letter of Credit as a Financial Obligation Letter of Credit or a Performance Letter of Credit shall be determined by the Agent in its reasonable discretion; the Agent shall promptly notify the Lenders of such classification after each issuance. No Letter of Credit shall have an expiration date later than one year from the date of issuance and under no circumstances shall any Letter of Credit have an expiration date later than the Termination Date. Each Issuing Lender severally agrees, on the terms and conditions hereinafter set forth, to issue Letters of Credit in either U.S. Dollars or Canadian Dollars at the option of the Borrower. The U.S. Dollar Equivalent of each Canadian Dollar Letter of Credit Advance and of the Available Amount of each Canadian Dollar Letter of Credit shall be recalculated hereunder on each date on which it shall be necessary to determine the Unused Revolving Credit Commitment, or any or all Letter of Credit Advances outstanding on such date. Within the limits of the Letter of Credit Facility, and subject to the limits referred to above, the Borrower may request the issuance of Letters of Credit under this Section 2.01(c), repay any Letter of Credit Advances resulting from drawings thereunder pursuant to Section 2.04(b) and request the issuance of additional Letters of Credit under this Section

2.01(c).

(d) Outstanding Letters of Credit. The letters of credit under the Existing Facility set forth on Schedule 2.01(d) hereto opposite such Issuing Lender's name (each, an "Outstanding Letter of Credit") which are outstanding and undrawn on the Effective Date shall be deemed to be Letters of Credit of such Issuing Lenders for the purposes of this Agreement. The Agent shall on the Effective Date determine the classification of each Outstanding Letter of Credit in accordance with Section 2.01(c) of this Agreement.

SECTION 2.02. Making the Advances. (a) Each Revolving Credit Borrowing shall be made on notice, given not later than 11:00 A.M. (New York City time) on

(i) the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances, (ii) the second Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of CD Rate Advances, and (iii) the first Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier or tested telex. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit

Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier or tested telex in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances or CD Rate Advances, initial Interest Period for each such Revolving Credit Advance. Each Lender shall, before 11:00 A.M. (New York City time) on the date of such Revolving Credit Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02; provided, however, that after giving effect to each Revolving Credit Advance made hereunder, the Unused Revolving Credit Commitment shall be equal to or greater than the amount of Swing Line Advances then outstanding, plus interest accrued and unpaid to and as of such date.

(b) Each Swing Line Borrowing shall be made on notice, given not later than 2:00 P.M. (New York City time), or such later time as agreed to by the Borrower and the applicable Swing Line Bank, on the date of the proposed Swing Line Borrowing, by the Borrower to the applicable Swing Line Bank and the Agent. Each such notice of a Swing Line Borrowing (a "Notice of Swing Line Borrowing") shall be by telephone, confirmed immediately in writing, or tested telex or telecopier, specifying therein the requested (i) date of such Swing Line Borrowing, (ii) amount of such Swing Line Borrowing and (iii) maturity of such Swing Line Borrowing (which maturity shall be no later than the tenth day after the requested date of such Borrowing). The applicable Swing Line Bank will make the amount of each Swing Line Advance available to the Agent at the Agent's Account, in same day funds or make such amount available to the Borrower as agreed between such applicable Swing Line Bank and the Borrower. Upon written demand to the Agent (who shall promptly notify each other Lender) by any Swing Line Bank with an outstanding Swing Line Advance each other Lender shall purchase from such Swing Line Bank, and such Swing Line Bank shall sell and assign to each such other Lender, such other Lender's Pro Rata Share of such outstanding Swing Line Advance as of the date of such demand, by making available for the account of its Applicable Lending Office to the Agent for the account of such Swing Line Bank, by deposit to the Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Swing Line Advance to be purchased by such Lender. The Borrower hereby agrees to each such sale and assignment. Each Lender unconditionally agrees to purchase its Pro Rata Share of an outstanding Swing Line Advance on (i) the Business Day on which demand therefor is made by the Swing Line Bank that made such Advance, provided that notice of such demand is given not later than 11:00

A.M. (New York City time) on such Business Day or (ii) the first Business Day next succeeding such demand if notice of such demand is given after such time. Upon any such assignment by a Swing Line Bank to any other Lender of a portion of a Swing Line Advance, such Swing Line Bank represents and warrants to such other Lender that such Swing Line Bank is the legal and beneficial owner of such interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Swing Line Advance, the Loan Documents the Borrower or any of its Subsidiaries. If and to the extent that any Lender shall not have so made the amount of such Swing Line Advance available to the Agent, such Lender agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Swing Line Bank until the date such amount is paid to the Agent, at the Federal Funds Rate. If such Lender shall pay to the Agent such amount for the account of such Swing Line Bank on any Business Day, such amount so paid in respect of principal shall constitute a Swing Line Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Swing Line Advance made by such Swing Line Bank shall be reduced by such amount on such Business Day. The obligation of each other Lender to purchase a pro-rata share of any Swing Line Bank's Swing Line Advances is absolute and unconditional notwithstanding the occurrence of any circumstances including without limitation, any Event of Default, set-off or deduction by the Borrower or its Subsidiaries.

(c) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Revolving Credit Borrowing if the aggregate amount of such

Revolving Credit Borrowing is less than \$10,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to

Section 2.08 or 2.13 and (ii) Revolving Credit Advances may not be outstanding as part of more than ten separate Borrowings; provided, however, that for purposes of the limitation set forth in clause (ii) of this sentence, all Borrowings consisting of Base Rate Advances shall constitute a single Borrowing.

(d) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Revolving Credit Borrowing that the related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurodollar Rate Advances or CD Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense to the extent incurred by such Lender as a direct result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance to be made by such Lender as part of such Revolving Credit Borrowing when such Revolving Credit Advance, as a result of such failure, is not made on such date.

(e) Unless the Agent shall have received notice from the Appropriate Lender prior to the date of any Borrowing under a Facility under which such Lender has a Revolving Credit Commitment that such Lender will not make available to the Agent such Lender's ratable portion of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) or (b) of this

Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and the Borrower severally agree to repay or pay to the Agent forthwith on demand such corresponding amount and to pay interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid or paid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at such time under Section 2.07 to Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall pay to the Agent such corresponding amount, such amount so paid shall constitute such Lender's Advance as part of such Borrowing for all purposes.

(f) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

SECTION 2.03. The Competitive Bid Advances. (a) Each Lender severally agrees that the Borrower may make Competitive Bid Borrowings under this Section

2.03 from time to time on any Business Day during the period from the Effective Date until the date occurring 30 days prior to the Termination Date in the manner set forth below; provided that, following the making of each Competitive Bid Borrowing, the aggregate amount of the Advances then outstanding plus the Available Amount of all Letters of Credit then outstanding shall not exceed the aggregate amount of the Revolving Credit Commitments of the Lenders (computed without regard to any Competitive Bid Reduction).

(i) The Borrower may request a Competitive Bid Borrowing under this

Section 2.03 by delivering to the Agent, by telecopier or tested telex, a notice of a Competitive Bid Borrowing (a "Notice of Competitive Bid Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying therein the requested (v) date of such proposed Competitive Bid Borrowing,

(w) aggregate amount of such proposed Competitive Bid Borrowing, (x) in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, Interest Period, or in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances, maturity date for repayment of each Fixed Rate Advance to be made as part of such Competitive Bid Borrowing (which maturity date may not be earlier than the date occurring 10 days after

the date of such Competitive Bid Borrowing or later than the earlier of

(i) 270 days after the date of such Competitive Bid Borrowing and (ii) the Termination Date), (y) interest payment date or dates relating thereto, and (z) other terms (if any) to be applicable to such Competitive Bid Borrowing, not later than 10:00 A.M. (New York City time) (A) at least two Business Day prior to the date of the proposed Competitive Bid Borrowing, if the Borrower shall specify in the Notice of Competitive Bid Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum (the Advances comprising any such Competitive Bid Borrowing being referred to herein as "Fixed Rate Advances") and (B) at least five Business Days prior to the date of the proposed Competitive Bid Borrowing, if the Borrower shall instead specify in the Notice of Competitive Bid Borrowing that the rates of interest be offered by the Lenders are to be based on the LIBO Rate (the Advances comprising such Competitive Bid Borrowing being referred to herein as "LIBO Rate Advances"). Subject to clause (iii)(x) below, each Notice of Competitive Bid Borrowing shall be irrevocable and binding on the Borrower. The Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Borrowing received by it from the Borrower by sending such Lender a copy of the related Notice of Competitive Bid Borrowing.

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Advances to the Borrower as part of such proposed Competitive Bid Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to the Borrower), before 10:00 A.M. (New York City time) one Business Day prior to the date of the proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances and before 10:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, of the minimum amount and maximum amount of each Competitive Bid Advance which such Lender would be willing to make as part of such proposed Competitive Bid Borrowing (which amounts may, subject to the proviso to the first sentence of this Section

2.03(a), exceed such Lender's Revolving Credit Commitment, if any), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such Competitive Bid Advance; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify the Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent, before 10:00 A.M. (New York City time) on the date on which notice of such election is to be given to the Agent by the other Lenders, and such Lender shall not be obligated to, and shall not, make any Competitive Bid Advance as part of such Competitive Bid Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Competitive Bid Advance as part of such proposed Competitive Bid Borrowing.

(iii) The Borrower shall, in turn, before 11:00 A.M. (New York City time) one Business Day prior to the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances and before 11:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, either:

(x) cancel such Competitive Bid Borrowing by giving the Agent notice to that effect, or

(y) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (ii) above, in its sole discretion, by giving notice to the Agent of the amount of each Competitive Bid Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to the Borrower by the Agent on behalf of such Lender for such Competitive Bid Advance pursuant to paragraph (ii) above) to be made

by each Lender as part of such Competitive Bid Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (ii) above by giving the Agent notice to that effect. The Borrower shall accept the offers made by any Lender or Lenders to make Competitive Bid Advances in order of the lowest to the highest rates of interest offered by such Lenders. If two or more Lenders have offered the same interest rate, the amount to be borrowed at such interest rate will be allocated among such Lenders in proportion to the amount that each such Lender offered at such interest rate; provided, however, that such allocation may be adjusted upward or downward by the Agent, as necessary, to make the amount to be borrowed from each Lender equal to \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(iv) If the Borrower notifies the Agent that such Competitive Bid Borrowing is cancelled pursuant to paragraph (iii)(x) above, the Agent shall give prompt notice thereof to the Lenders and such Competitive Bid Borrowing shall not be made.

(v) If the Borrower accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, the Agent shall in turn promptly notify (A) each Lender that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such Competitive Bid Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (ii) above have been accepted by the Borrower, (B) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, of the amount of each Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing, and (C) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing shall, before 12:00 noon (New York City time) on the date of such Competitive Bid Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's portion of such Competitive Bid Borrowing. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02. Promptly after each Competitive Bid Borrowing the Agent will notify each Lender of the amount of the Competitive Bid Borrowing, the consequent Competitive Bid Reduction and the dates upon which such Competitive Bid Reduction commenced and will terminate.

(vi) If the Borrower notifies the Agent that it accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, such notice of acceptance shall be irrevocable and binding on the Borrower. The Borrower shall indemnify each Lender against any loss, cost or expense to the extent incurred by such Lender as a direct result of any failure to fulfill on or before the date specified in the related Notice of Competitive Bid Borrowing for such Competitive Bid Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing when such Competitive Bid Advance, as a result of such failure, is not made on such date.

(b) Each Competitive Bid Borrowing shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and, following the making of each Competitive Bid Borrowing, the Borrower shall be in compliance with the limitations set forth in the proviso to the first sentence of subsection (a) above.

(c) Within the limits and on the conditions set forth in this Section

2.03, the Borrower may from time to time borrow under this Section 2.03, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.03.

(d) The Borrower shall repay to the Agent for the account of each Lender that has made a Competitive Bid Advance, on the maturity date of each Competitive Bid Advance (such maturity date being that specified by the Borrower for repayment of such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above), the then unpaid principal amount of such Competitive Bid Advance. The Borrower shall have no right to prepay any principal amount of any Competitive Bid Advance except as specified in the Notice of Competitive Bid Borrowing relating thereto.

(e) The Borrower shall pay interest on the unpaid principal amount of each Competitive Bid Advance from the date of such Competitive Bid Advance to the date the principal amount of such Competitive Bid Advance is repaid in full, at the rate of interest for such Competitive Bid Advance specified by the Lender making such Competitive Bid Advance in its notice with respect thereto delivered pursuant to subsection (a)(ii) above, payable on the interest payment date or dates specified by the Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a)(i) above, as provided in the Competitive Bid Note evidencing such Competitive Bid Advance. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Borrower shall pay interest on the amount of past-due principal of and interest on each Competitive Bid Advance owing to a Lender and any past-due fees relating thereto, payable in arrears on the date or dates interest is payable thereon, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Competitive Bid Advance under the terms of the Competitive Bid Note evidencing such Competitive Bid Advance unless otherwise agreed in such Competitive Bid Note.

(f) The indebtedness of the Borrower resulting from each Competitive Bid Advance made to the Borrower as part of a Competitive Bid Borrowing shall be evidenced by a Competitive Bid Note of the Borrower payable to the order of the Lender making such Competitive Bid Advance.

(g) Upon delivery of each Notice of Competitive Bid Borrowing, the Borrower shall pay a non-refundable fee of \$3,500 to the Agent for its own account.

SECTION 2.04. Issuance of and Drawings and Reimbursement Under Letters of Credit. (a) Request for Issuance. Each Letter of Credit shall be issued upon request, given not later than 11:00 A.M. (New York City time) on the fifth Business Day prior to the date of the proposed issuance of such Letter of Credit (or such shorter notice as agreed between the Borrower and any Issuing Lender), by the Borrower to the Agent, which shall give to each Issuing Lender prompt notice thereof by tested telex, telecopier or cable. Each such request for issuance of a Letter of Credit (a "Letter of Credit Request") shall be by telephone, confirmed immediately in writing, or telecopier or tested telex substantially in the form of Exhibit B-3 hereto, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) currency and Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit (which shall not be more than one year from the date of issuance), (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit. If the requested form of such Letter of Credit is reasonably acceptable to the Issuing Lender, the Issuing Lender will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the Borrower at its office referred to in Section 8.02 or as otherwise agreed with the Borrower in connection with such issuance. Within a reasonable time after the issuance of each Letter of Credit hereunder, the Agent shall provide notice thereof and a copy of such Letter of Credit to each Lender.

(b) Drawing and Reimbursement. (i) The payment by any Issuing Lender of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by such Issuing Lender of an Advance (each being a "Letter of Credit Advance"), which initially shall be a Base Rate Advance (subject to

Section 2.10), in the amount of such draft; provided, however, that if, at the time of any such drawing under a Letter of Credit the Borrower is not able to satisfy each of the conditions set forth in Section 3.02, such drawing shall not constitute an advance hereunder and the Borrower shall immediately reimburse the Issuing Lender for such amount drawn. The payment by any Issuing Lender of a draft drawn under any Canadian Dollar Letter of Credit shall constitute for all purposes of this Agreement the making by such Issuing Lender of a Canadian Dollar Letter of Credit Advance; provided, however, that if, at the time of any such drawing under a Canadian Dollar Letter of Credit, the Borrower is not able to satisfy each of the conditions set forth in Section 3.02, such drawing shall not constitute an Advance hereunder and the Borrower shall immediately reimburse the Issuing Lender for such amount drawn. Upon the making of a Canadian Dollar Letter of Credit Advance, the amount of such Advance in Canadian Dollars shall be immediately converted to the U.S. Dollar Equivalent and shall thereafter constitute a Base Rate Advance in the amount of such U.S. Dollar Equivalent. Upon written demand by any Issuing Lender with an outstanding Letter of Credit Advance, with a copy of such demand to the Agent, each other Lender shall purchase from such Issuing Lender, and such Issuing Lender shall sell and assign to each such other Lender, such other Lender's Pro Rata Share of such outstanding Letter of Credit Advance as of the date of such purchase, by making available for the account of its Applicable Lending Office to the Agent for the account of such Issuing Lender, by deposit to the Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Letter of Credit Advance to be purchased by such other Lender; provided, however, that so long as such written demand shall be made by any such Issuing Lender within two Business Days of the making of such Letter of Credit Advance, each such purchasing Lender shall also pay its Pro Rata Share of the interest accrued on such Letter of Credit Advance through the date of such demand and; provided further, that if any Lender's public debt rating (as such term is defined in the definition of "Applicable Margin") falls below BBB- or Baa3 by S&P or Moody's, respectively, such Lender shall, upon 5 Business Days' notice from the Agent, cash collateralize its Pro Rata Share of the Available Amount of all Letters of Credit issued and outstanding at such time by depositing such amount into the L/C Cash Collateral Account, such depositing Lender to be entitled to interest on any such deposited funds at the Federal Funds Rate so long as such amounts are deposited in the L/C Cash Collateral Account. Promptly after receipt of all such funds from the purchasing Lenders, the Agent shall transfer such funds to such Issuing Lender. The Borrower hereby agrees to each such sale and assignment. Each Lender agrees to purchase its Pro Rata Share of an outstanding Letter of Credit Advance on (A) the Business Day on which demand therefor is made by the Issuing Lender which made such Advance, provided notice of such demand is given not later than 11:00 A.M. (New York City time) on such Business Day or (B) the first Business Day next succeeding such demand if notice of such demand is given after such time. Upon any such assignment by an Issuing Lender to any other Lender of a portion of a Letter of Credit Advance, such Issuing Lender represents and warrants to such other Lender that such Issuing Lender is the legal and beneficial owner of such interest being assigned by it, free and clear of any liens, but makes no other representation or warranty and assumes no responsibility with respect to such Letter of Credit Advance, this Agreement or any party hereto. If and to the extent that any Lender shall not have so made the amount of such Letter of Credit Advance available to the Agent, such Lender agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Issuing Lender until the date such amount is paid to the Agent, at the Federal Funds Rate for its account or the account of such Issuing Lender, as applicable. If such Lender shall pay to the Agent such amount for the account of such Issuing Lender on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Advance made by such Issuing Lender shall be reduced by such amount on such Business Day.

(ii) If the Borrower has commenced any action or proceeding seeking to enjoin or preclude the payment or drawing with respect to any Letter of Credit, and such action or proceeding is not concluded on or prior to the Termination Date, the Agent may make demand upon the Borrower to, and forthwith upon such demand the Borrower will, pay to the Agent on behalf of the Lenders in same day funds at the Agent's office designated in such demand, for deposit in the L/C Cash Collateral Account, an amount equal to the Available Amount of any such Letter of Credit.

(c) Failure to Make Letter of Credit Advances. The failure of any Lender to make the Letter of Credit Advance to be made by it on the date specified in Section 2.04(b) shall not relieve any other Lender of its obligation hereunder to make its Letter of Credit Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make the Letter of Credit Advance to be made by such other Lender on such date.

SECTION 2.05. Optional Termination or Reduction of Revolving Credit Commitments. The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Revolving Credit Commitments of the Lenders, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and provided further that the aggregate amount of the Revolving Credit Commitments of the Lenders shall not be reduced to an amount that is less than the aggregate principal amount of the Competitive Bid Advances then outstanding.

SECTION 2.06. Repayment of Advances. (a) Revolving Credit Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

(b) Swing Line Advances. The Borrower shall repay to each Lender that has made a Swing Line Advance the outstanding principal amount of each Swing Line Advance made by each of them (together with interest thereon) on the earlier of the maturity date specified in the applicable Notice of Swing Line Borrowing (which maturity shall be no later than the tenth day after the requested date of such Borrowing) and the Termination Date.

(c) Letter of Credit Advances. (i) The Borrower shall repay to the Agent for the account of each Issuing Lender and each other Lender that has made a Letter of Credit Advance on the Termination Date the outstanding principal amount of each Letter of Credit Advance made by each of them (irrespective of whether any such Letter of Credit Advance was made before, on or, if in accordance with applicable law, after the expiry date stated in the applicable Letter of Credit).

(ii) The obligations of the Borrower under this Agreement shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

(A) any lack of validity or enforceability of this Agreement, any Letter of Credit or any Letter of Credit Request;

(B) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Borrower in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from all or any of the Letters of Credit;

(C) the existence of any claim, setoff, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), any Issuing Lender or any other Person, whether in connection with the transactions contemplated by the Letter of Credit or any unrelated transaction;

(D) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid or any statement therein being untrue or inaccurate in any respect;

(E) payment by any Issuing Lender under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit so long as such draft or

certificate substantially complies; or

(F) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including, without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor.

SECTION 2.07. Interest on Advances. (a) **Scheduled Interest.** The Borrower shall pay interest on the unpaid principal amount of each Advance (excluding Competitive Bid Advances) owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) **Base Rate Advances.** During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time, payable in arrears quarterly on the first Business Day of each January, April, July and October during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) **Eurodollar Rate Advances.** During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) **CD Rate Advances.** During such periods as such Advance is a CD Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Adjusted CD Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than 90 days, on each day that occurs during such Interest Period every 90 days from the first day of such Interest Period and on the date such CD Advance shall be Converted or paid in full.

(b) **Default Interest.** Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Borrower shall pay interest on (i) the unpaid principal amount of each Advance (excluding Competitive Bid Advances) owing to each Lender, payable in arrears on the dates referred to in clause

(a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above.

(c) **Additional Interest on Eurodollar Rate Advances.** The Borrower shall pay to each Lender, so long as such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Advance of such Lender during such periods as such Advance is a Eurodollar Rate Advance, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for such Interest Period for such Eurodollar Rate Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Lender for

such Interest Period, payable on each date on which interest is payable on such Eurodollar Rate Advance. Such additional interest shall be determined by such Lender and notified to the Borrower through the Agent.

SECTION 2.08. Interest Rate Determination. (a) Each Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Eurodollar Rate, each Adjusted CD Rate and each LIBO Rate. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks. The Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Agent for purposes of

Section 2.07(a)(i), (ii) or (iii) or for purposes of any LIBO Rate Advance, and the rate, if any, furnished by each Reference Bank for the purpose of determining the interest rate under Section 2.07(a)(ii) or (iii) or any LIBO Rate Advance.

(b) If, with respect to any Eurodollar Rate Advances, the Required Lenders notify the Agent prior to the commencement of the Interest Period therefor that the Eurodollar Rate for such Interest Period for such Advances will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify the Borrower and the Lenders, whereupon (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (ii) the obligation of the Lenders to make, or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances or any CD Rate Advance in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances or CD Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$10,000,000, such Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurodollar Rate Advance and CD Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances or CD Rate Advances shall be suspended.

(f) If none of the Reference Banks furnish timely information to the Agent for determining the Eurodollar Rate, Adjusted CD Rate or LIBO Rate for any Eurodollar Rate Advances, CD Rate Advances or LIBO Rate Advances, as the case may be:

(i) the Agent shall forthwith notify the Borrower and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances, CD Rate Advances or LIBO Rate Advances, as the case may be,

(ii) with respect to Eurodollar Rate Advances, each such Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Lenders to make Eurodollar Rate Advances, CD Rate Advances or LIBO Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such

suspension no longer exist.

SECTION 2.09. Fees. (a) **Facility Fee.** The Borrower agrees to pay to the Agent for the account of each Lender (other than the Designated Bidders) a facility fee on the daily aggregate amount of such Lender's Revolving Credit Commitment from the earlier of (i) the Effective Date or (ii) 30 days following the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender (but not prior to the earlier of (i) the Effective Date or (ii) 30 days following the date hereof) in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Margin in effect from time to time, payable in arrears quarterly on the first Business Day of each January, April, July and October, commencing April 1, 1998, and on the Termination Date.

(b) **Annual Agency Fee.** The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed upon between the Borrower and the Agent.

(c) **Agent's Fees.** The Borrower shall pay to the Agent for its own account such fees as may from time to time be agreed between the Borrower and the Agent.

(d) **Arranger's, Co-Documentation Agents and Co-Arranger's Fee.** The Borrower shall pay to the Arranger for its own account or, as applicable, the account of a Co-Documentation Agent or Co-Arranger such fees as agreed between the Borrower and the Arranger, the Borrower and the Co-Arrangers and the Borrower and the Co-Documentation Agents.

(e) **Senior Managing and Co-Agents' Fee.** The Borrower shall pay to the Agent for the account of each Senior Managing and Co-Agent such fees as specified in the Information Memorandum.

(f) **Letter of Credit Fees.** (i) The Borrower shall pay to the Agent for the account of each Lender a commission on such Lender's Pro Rata Share of the daily aggregate Available Amount (in U.S. Dollars) of all Letters of Credit outstanding from time to time at the rate per annum equal to (A) the Applicable Margin for Eurodollar Rate Advances for Financial Obligation Letters of Credit and (B) 50% of the Applicable Margin for Eurodollar Rate Advances for Performance Letters of Credit, payable in arrears quarterly on the first Business Day of each January, April, July and October, commencing April 1, 1998, and on the Termination Date.

(ii) The Borrower shall pay to the Agent for the account of each Issuing Lender a commission on the daily aggregate Available Amount (in U.S. Dollars) of all Letters of Credit issued by such Issuing Lender and outstanding from time to time at the rate per annum equal to 1/8 of 1%, payable in arrears quarterly on the first Business Day of each January, April, July and October, commencing April 1, 1998, and on the Termination Date.

SECTION 2.10. Optional Conversion of Revolving Credit Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.13, Convert all or any portion of the Advances of one Type comprising the same Borrowing into Advances of another Type or change the Interest Period therefor into another permissible Interest Period; provided, however, that (i) in the event that any Conversion of Eurodollar Rate Advances or CD Rate Advances into Base Rate Advances is made on a day other than the last day of an Interest Period for such Eurodollar Rate Advances or CD Rate Advances, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section

8.04(c), (ii) each Conversion shall be of Advances in an aggregate amount not less than \$10,000,000, (iii) no Conversion of any Advances shall result in more separate Borrowings than permitted under Section 2.02(c) and (iv) each Conversion of Advances comprising part of the same Borrowing under any Facility shall be made ratably among the appropriate Lenders in accordance with their Revolving Credit Commitments under such Facility. Each such notice of a Conversion shall, within the restrictions specified above, specify (A) the date of

such Conversion, (B) the Advances to be Converted and (C) if such Conversion is into Eurodollar Rate Advances or CD Rate Advances, the duration of the initial Interest Period for each such Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

SECTION 2.11. Prepayments of Advances. (a) Optional. The Borrower may, upon (i) at least three Business Days' notice in the case of a Eurodollar Rate Advance or CD Rate Advance, (ii) at least one Business Day's notice in the case of a Base Rate Advance and (iii) same day notice in the case of a Swing Line Advance, in each case to the Agent stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of such Advances (other than Competitive Bid Advances) comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof (or, in the case of Swing Line Advances, the full amount of any such Swing Line Advance); provided, however, that following each partial prepayment of any Eurodollar Rate Advance the remaining outstanding amount of such Advance shall be at least \$10,000,000 and (y) in the event of any such prepayment of a Eurodollar Rate Advance or CD Rate Advance other than on the last day of the Interest Period therefor, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(c).

(b) Mandatory. (i) The Borrower shall, on each Business Day, prepay an aggregate principal amount of the Revolving Credit Advances comprising part of the same Borrowings, the Letter of Credit Advances, the Swing Line Advances and the Competitive Bid Advances equal to the amount by which (A) the sum of the aggregate principal amount of (w) the Competitive Bid Advances, (x) the Revolving Credit Advances, (y) the Letter of Credit Advances and (z) the Swing Line Advances then outstanding plus the aggregate Available Amount of all Letters of Credit then outstanding exceeds (B) the Revolving Credit Facility on such Business Day. If, after giving effect to the foregoing prepayments, the aggregate Available Amount of all Letters of Credit then outstanding exceeds the Letter of Credit Facility, then the Borrower shall pay to the Agent on behalf of the Lenders and the Issuing Lenders in same day funds, for deposit in the L/C Cash Collateral Account, an aggregate amount equal to such excess in accordance with arrangements reasonably satisfactory to the Agent. For purposes of determining, at any time, the aggregate principal amount of Letter of Credit Advances or the aggregate Available Amount of all Letters of Credit then outstanding at such time, the aggregate principal amount of all Canadian Dollar Letter of Credit Advances and the aggregate Available Amount of all Canadian Dollar Letters of Credit outstanding at such time shall be converted to the U.S. Dollar Equivalent determined as at such time.

(ii) Prepayments made pursuant to clause (i) above shall be first applied to prepay Letter of Credit Advances then outstanding until such Advances are paid in full, second applied to prepay Swing Line Advances then outstanding until such Advances are paid in full, and third applied to prepay Revolving Credit Advances then outstanding comprising part of the same Borrowings until such Advances are paid in full.

(iii) All prepayments under this subsection (b) shall be made together with accrued interest to the date of such prepayment on the principal amount prepaid. If any payment required to be made under this Section 2.05(b) on account of Eurodollar Rate Advances or CD Rate Advances would be made other than on the last day of the applicable Interest Period therefor, the Borrower may, in lieu of prepaying such Advance, deposit the amount of such payment in the Cash Collateral Account until the last day of the applicable Interest Period at which time such payment shall be made.

SECTION 2.12. Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation, with respect to any Eurodollar Rate Advance or CD Rate Advance, after the date hereof, and with respect to any LIBO Rate Advance, after the date on which one or more Lenders offered to make such LIBO Rate Advance or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), adopted or made, with respect to any Eurodollar Rate Advance or CD Rate Advance, after the date hereof, and with respect to any LIBO

Rate Advance, after the date on which one or more Lenders offered to make such LIBO Rate Advance, there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, CD Rate Advances or LIBO Rate Advances (excluding for purposes of this Section 2.12 any such increased costs resulting from taxes, including Taxes and Other Taxes (as to which Section 2.15 shall govern)), then the Borrower shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost to the extent actually incurred; provided, however, that, before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such increased cost and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost, setting forth the basis therefor in reasonable detail, submitted to the Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender reasonably determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) adopted after the date hereof affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by such Lender (with a copy of such demand to the Agent), the Borrower shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder to the extent actually incurred; provided, however, that, before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such additional amounts payable under this subsection (b) and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to such amounts setting forth the basis therefor in reasonable detail, submitted to the Borrower and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) Notwithstanding any other provision in this Section 2.12, no Lender shall be entitled to demand compensation pursuant to this Section 2.12 unless, at such time, it is the general policy or practice of such Lender to demand such compensation in similar circumstances under comparable provisions of other comparable credit agreements with borrowers of similar credit quality. The Borrower shall pay each Lender the amount shown as due on any certificate delivered by such Lender pursuant to subsection (a) or (b) above within 30 days after its receipt of the same.

(d) No Lender shall be entitled to compensation under this Section 2.12 for any costs incurred or reductions suffered with respect to any event or circumstance unless such Lender shall have notified the Borrower, not more than 120 days after such Lender becomes aware of such event or circumstance, that it will demand compensation for such costs or reductions in a certificate described in the last sentence of each of subsections (a) and (b) above.

SECTION 2.13. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent and the Borrower that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or LIBO Rate Advances or to fund or maintain Eurodollar Rate Advances or LIBO Rate Advances hereunder, (i) the obligation of the Lenders to make Eurodollar Rate Advances or LIBO Rate Advances, as the case may be, or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended, whereupon any request by the Borrower for a Borrowing comprised of Eurodollar Rate Advances shall

be deemed a request for a Base Rate Advance until the affected Lender shall notify the Agent and the Borrower that the circumstances causing such suspension no longer exist and (ii) the Lenders may require that all outstanding Eurodollar Rate Advances and LIBO Rate Advances, as the case may be, made by it be Converted to Base Rate Advances, in which event all such Eurodollar Rate Advances and LIBO Rate Advances, as the case may be, shall be automatically Converted to Base Rate Advances as of the effective date of such notice; provided, however, that each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would enable such Lender to withdraw its notice under this Section and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. In the event any Lender shall notify the Agent and the Borrower of the occurrence of the circumstances causing such suspension under this Section, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Rate Advances or LIBO Rate Advances that would have been made by such Lender or the Converted Eurodollar Rate Advances shall instead be applied to repay the Base Rate Advances made by such Lender in lieu of such Eurodollar Rate Advances or LIBO Rate Advances, or resulting from the Conversion of such Eurodollar Rate Advances. For purposes of this Section 2.13, a notice to the Borrower by any Lender shall be effective as to each Eurodollar Rate Advance and LIBO Rate Advance, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Rate Advance or LIBO Rate Advance, as the case may be; in all other cases such notice shall be effective on the date of the occurrence of the circumstances causing such suspension.

SECTION 2.14. Payments and Computations. (a) The Borrower shall make each payment hereunder and under the Notes and any Letter of Credit not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Section 2.03, 2.12, 2.15 or 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes and any Letter of Credit in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Base Rate (to the extent governed by clause (a) of the definition thereof) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, Adjusted CD Rate or the Federal Funds Rate and of facility fees and Letter of Credit fees shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes or any Letter of Credit shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances or LIBO Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may,

in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.15. Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes shall be made, in accordance with Section 2.14, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized, managed or controlled or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made under any Note or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or any the Note (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any taxes imposed by any jurisdiction on amounts payable under this Section 2.15) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including, without limitation, penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof. In the case of any payment hereunder or under the Notes by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes imposed by the jurisdiction from which such payment is made. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender, on the date of the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender, and from time to time thereafter as requested in writing by the Borrower (but only so long as such Lender remains lawfully able to do so), shall provide each of the Agent and the Borrower with two original Internal Revenue Service forms 1001 or 4224, as appropriate, or any successor or other form prescribed by the Internal Revenue Service,

certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes. If the forms provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the date of the Assignment and Acceptance pursuant to which a Lender assignee becomes a party to this Agreement, the Lender assignor was entitled to payments under subsection (a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) the lesser of (i) the United States withholding tax, if any, applicable with respect to the Lender assignee on such date and (ii) the United States withholding tax, if any, applicable with respect to the Lender assignor on such date. For purposes of this subsection (e), the term Assignment and Acceptance shall include a change in the Applicable Lending Office of a Lender. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form 1001 or 4224, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender has failed to provide the Borrower with the appropriate form described in Section 2.15(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a form originally was required to be provided, or if such form otherwise is not required under the first sentence of subsection (e) above), such Lender shall not be entitled to indemnification under Section 2.15(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes and any cost or expense incurred by the Borrower in connection therewith shall be promptly reimbursed by such Lender.

(g) If a Lender or the Agent receives a refund from a taxing authority in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.15, it shall within 30 days from the date of such receipt pay over such refund to the Borrower, net of all out-of-pocket expenses of such Lender or the Agent; provided, however, that the Borrower, upon the request of such Lender or the Agent, agrees to repay the amount paid over to the Borrower to such Lender or the Agent in the event such Lender or the Agent is required to repay such refund to such taxing authority.

(h) Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section 2.15 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.16. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, or otherwise) on account of the Revolving Credit Advances owing to it (other than pursuant to Section 2.12, 2.15 or 8.04(c)) in excess of its ratable share of payments on account of the Revolving Credit Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participation in the Revolving Credit Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender,

such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.16 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.17. Use of Proceeds. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely for general corporate purposes of the Borrower and its Subsidiaries including, without limitation, the financing of acquisitions not otherwise prohibited by this Agreement.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Conditions Precedent to Effectiveness of Sections 2.01 and 2.03. Sections 2.01 and 2.03 of this Agreement shall become effective on and as of the first date occurring not later than March 20, 1998 (the "Effective Date") on which the following conditions precedent have been satisfied:

- (a) There shall have occurred no Material Adverse Change since December 31, 1996.
- (b) There shall exist no action, suit, investigation, litigation or proceeding affecting the Borrower or any of its Material Subsidiaries pending or threatened before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect other than the matters described on Schedule 3.01(b) hereto (the "Disclosed Litigation") or (ii) purports to affect the legality, validity or enforceability of any Loan Document or the consummation of the transactions contemplated thereby, and there shall have been no material adverse change in the status, or financial effect on the Borrower and its Material Subsidiaries taken as a whole, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.
- (c) All governmental, regulatory and third party consents and approvals necessary in connection with the transactions contemplated hereby (including, without limitation, all consents and approvals required under PUHCA) shall have been obtained (without the imposition of any conditions that are not acceptable in the reasonable judgment of the Lenders) and shall remain in effect, and no law or regulation shall be applicable in the reasonable judgment of the Lenders that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.
- (d) The Borrower shall have notified the Agent in writing as to the proposed Effective Date.
- (e) The Borrower shall have paid all fees and expenses of the Agent and fees of the Lenders (including the fees and expenses of counsel to the Agent) and fees of the Co-Documentation Agents then due; provided that the Borrower shall not be required to pay any expenses (including fees and expenses of counsel to the Agent) on the Effective Date unless the Borrower shall have received an invoice therefor at least three Business Days prior to the Effective Date.
- (f) On the Effective Date, the following statements shall be true and the Agent shall have

received for the account of each Lender a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

(i) the representations and warranties contained in Section 4.01 are correct on and as of the Effective Date,

(ii) no event has occurred and is continuing that constitutes a Default, and

(iii) the Information Memorandum and all other information, exhibits and reports furnished by the Borrower to the Agent and the Lenders in connection with the negotiation of the Loan Documents, taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(g) The Borrower shall have received, and shall continue to maintain as of the Effective Date, a long term unsecured debt rating equal to or higher than BBB+ from S&P and equal to or higher than Baa1 from Moody's.

(h) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and (except for the Revolving Credit Notes and the Swing Line Notes) in sufficient copies for each Lender:

(i) The Revolving Credit Notes to the order of the Lenders and the Swing Line Notes to the order of the Swing Line Banks, respectively.

(ii) Certified copies of the resolutions of the Board of Directors of the Borrower approving the Facilities, and of all documents evidencing other necessary corporate action, governmental and regulatory approvals and third party consents (including, without limitation, all approvals and consents required under PUHCA) with respect to this Agreement and the Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(iv) A favorable opinion of LeBoeuf, Lamb, Greene & MacRae, L.L.P., counsel for the Borrower, substantially in the form of Exhibit E hereto.

(v) A favorable opinion of Shearman & Sterling, counsel for the Agent, in form and substance satisfactory to the Agent.

(vi) Such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

(vii) The Agent shall have received on or before the Effective Date a letter from the Borrower, dated on or before such day, terminating in whole the commitments of the banks party to the Existing Agreement, and each of the Lenders that is party to the Existing Agreement waives, upon execution of this Agreement, the three Business Days' notice required by Section 2.05(a) of the Existing Agreement relating to the termination of commitments under the Existing Agreement.

(viii) The Borrower shall have satisfied and discharged all of its obligations under the Existing Agreement including, without limitation, the payment of all fees under the Existing Agreement.

SECTION 3.02. Conditions Precedent to Each Borrowing. The obligation of each Lender to make an Advance (other than a Competitive Bid Advance) on the occasion of each Borrowing or of each Issuing Lender to issue a Letter of Credit shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or such issuance the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or Notice of Issuance and the acceptance by the Borrower of the proceeds of such Borrowing or of such Letter of Credit shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or issuance such statements are true):

- (i) the representations and warranties contained in Section 4.01 are correct on and as of the date of such Borrowing, before and after giving effect to such Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, and
- (ii) no event has occurred and is continuing, or would result from such Borrowing or from the application of the proceeds therefrom, that constitutes a Default.

SECTION 3.03. Conditions Precedent to Each Competitive Bid Borrowing. The obligation of each Lender that is to make a Competitive Bid Advance on the occasion of a Competitive Bid Borrowing to make such Competitive Bid Advance as part of such Competitive Bid Borrowing is subject to the conditions precedent that (i) the Agent shall have received the written confirmatory Notice of Competitive Bid Borrowing with respect thereto, (ii) on or before the date of such Competitive Bid Borrowing, but prior to such Competitive Bid Borrowing, the Agent shall have received a Competitive Bid Note payable to the order of such Lender on such terms as were agreed to for such Competitive Bid Advance in accordance with Section 2.03 and substantially in the form of Exhibit A-2 hereto, and (iii) on the date of such Competitive Bid Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Competitive Bid Borrowing and the acceptance by the Borrower of the proceeds of such Competitive Bid Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Competitive Bid Borrowing such statements are true):

- (a) the representations and warranties contained in Section 4.01 are correct on and as of the date of such Competitive Bid Borrowing, before and after giving effect to such Competitive Bid Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,
- (b) no event has occurred and is continuing, or would result from such Competitive Bid Borrowing or from the application of the proceeds therefrom, that constitutes a Default, and
- (c) no event has occurred and no circumstance exists as a result of which the information concerning the Borrower that has been provided to the Agent and each Lender by the Borrower in connection herewith would include an untrue statement of a material fact or omit to state any material fact or any fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

SECTION 3.04. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower, by notice to the Lenders, designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders of the occurrence of the Effective Date, which notice shall be conclusive and

binding.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) The Borrower and the Material Subsidiaries are each entities duly organized, validly existing and in good standing under the laws of the jurisdiction of their organization.

(b) The execution, delivery and performance by the Borrower of each of the Loan Documents to which the Borrower is a party, and the consummation of the transactions contemplated thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (A) contravene (i) the Borrower's charter or by-laws or (ii) any law, rule or regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), or any contractual restriction binding on or, to the Borrower's knowledge, affecting the Borrower (except that certain orders are required under PUHCA for the performance of this Agreement and the execution, performance and delivery of any Note hereunder, which orders have been obtained) or (B) result in the imposition of any Lien.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Borrower of any Loan Document to which the Borrower is a party, except for those authorizations, approvals, actions, notices and filings (including any such authorizations, approvals, actions, notices and filings required under PUHCA for the performance of this Agreement and the execution, performance and delivery of any Note hereunder) listed on Schedule 4.01(c) hereto, all of which, as of the Effective Date, have been duly obtained, taken, given or made and are in full force and effect.

(d) This Agreement has been, and each of the other Loan Documents to which the Borrower is a party when delivered hereunder will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents to which the Borrower is a party when delivered hereunder will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms.

(e) The Consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 1996, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Arthur Andersen, LLP, independent public accountants, and the Consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 1997, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the nine months then ended, duly certified by the chief accounting officer of the Borrower, copies of which have been furnished to each Lender, fairly present, subject, in the case of said balance sheet as of September 30, 1997, and said statements of income and cash flows for the nine months ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower and its Subsidiaries as at such date and the Consolidated results of the operations of the Borrower and its Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied. Since December 31, 1996, there has been no Material Adverse Change.

(f) The Borrower is a "holding company" and each of the Borrower's Subsidiaries is a "subsidiary company" of the Borrower within the meaning of PUHCA, provided, however, that this representation shall be applicable only so long as PUHCA shall not be abolished or repealed.

(g) There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, against or, to the Borrower's knowledge, affecting the Borrower or any of its Material Subsidiaries before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation) or (ii) purports to affect in a material way the legality, validity or enforceability of any Loan Document or the consummation of the transactions contemplated thereby, and there has been no material adverse change in the status, or financial effect on the Borrower and its Material Subsidiaries taken as a whole, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(h) Neither the Borrower nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, provided that the Borrower may repurchase its own stock so long as any such repurchase or repurchases are made in the ordinary course of business.

(i) The Borrower and each of its Material Subsidiaries is currently in compliance, in all material respects, with all applicable laws, rules, regulations and orders, including, without limitation, compliance with PUHCA and ERISA and Environmental Laws as provided in Section 5.01(a), except in each case to the extent that failure to do so is not reasonably likely to have a Material Adverse Effect.

(j) No ERISA Event has occurred or is reasonably expected to occur with respect to any ERISA Plan that is reasonably likely to result in a Material Adverse Effect.

(k) Neither the Borrower nor any ERISA Affiliate has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan that is reasonably likely to result in a Material Adverse Effect.

(l) Neither the Borrower nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA, where such notification, reorganization or termination is reasonably likely to result in a Material Adverse Effect.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will:

(a) Compliance with Laws, Etc. Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all material contracts to which it is a party and all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, except in each case to the extent that failure to do so is not reasonably likely to

result in a Material Adverse Effect; provided, however, that neither the Borrower nor any of its Material Subsidiaries shall be required to comply with any applicable laws, rules, regulations or orders to the extent that the validity thereof or the application thereof to the Borrower or its Subsidiary, as applicable, is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained to the extent required by generally accepted accounting principles.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Material Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property, except in each case to the extent that failure to do so is not reasonably likely to result in a Material Adverse Effect; provided, however, that neither the Borrower nor any of its Material Subsidiaries shall be required to pay or discharge any such tax, assessment, charge, levy or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained to the extent required by generally accepted accounting principles, unless and until any Lien resulting therefrom attaches to its property and becomes enforceable against its other creditors.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, material rights (charter and statutory) and material franchises; provided, however, that (i) the Borrower may consummate any merger or consolidation permitted under Section 5.02(b) and (ii) subject only to Section 5.02(c), any Subsidiary may merge, consolidate or liquidate, or be sold or otherwise disposed of or sell or otherwise dispose of its assets and provided further that neither the Borrower nor any of its Material Subsidiaries shall be required to preserve any right or franchise if (x) the Board of Directors of the Borrower or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Borrower or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Borrower and its Subsidiaries taken as a whole or the Lenders or (y) such right or franchise shall be taken or transferred pursuant to the exercise by any Person of the power of eminent domain or action in lieu of or in settlement of such exercise.

(e) Visitation Rights. At any reasonable time and from time to time, subject to reasonable prior notice to the Borrower, permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Material Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Material Subsidiaries with any of their officers or directors and with their independent certified public accountants, provided that the Borrower shall be afforded an opportunity to be present during any such discussion with its independent certified public accountants.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in accordance with generally accepted accounting principles in effect from time to time.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Material Subsidiaries to maintain and preserve, all of its properties (including, without limitation, all patents, trademarks and other intellectual property) that are material to the conduct of its business in good

working order and condition, ordinary wear and tear excepted.

(h) Transactions with Affiliates. Conduct, and cause each of its Material Subsidiaries to conduct, all material transactions otherwise permitted under this Agreement with any of their Affiliates (other than transactions between the Borrower and any of its Wholly Owned Subsidiaries or between any such Wholly Owned Subsidiaries, provided that any Debt (other than Capitalized Leases) of any such Wholly Owned Subsidiary owing to any third party other than the Borrower or another of its Wholly Owned Subsidiaries does not exceed 5% of each Subsidiary's Capitalization) on terms that are fair and reasonable and no less favorable to the Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate; provided, however, that, notwithstanding the foregoing, (i) the Borrower shall be permitted to continue its present intercompany loan program pursuant to which the Borrower makes loans to Subsidiaries at rates of interest based upon the Borrower's cost of capital and (ii) transactions between the Borrower and Subsidiaries, or between Subsidiaries, conducted at cost, shall be permitted.

(i) Reporting Requirements. Furnish to the Lenders:

(i) as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Borrower, Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such quarter and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments) by the chief accounting officer of the Borrower as having been prepared in accordance with generally accepted accounting principles and certificates of the chief financial officer of the Borrower as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03, provided that, in the event of any change in GAAP used in the preparation of such financial statements, the Borrower shall also provide, if necessary for the determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP;

(ii) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, (A) a copy of the annual audit report for such year for the Borrower and its Subsidiaries, containing Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year, in each case accompanied by an opinion (without material qualification) by Arthur Andersen, LLP or other independent public accountants acceptable to the Required Lenders, provided that in the event of any change in GAAP used in the preparation of such financial statements, the Borrower shall also provide, if necessary for the determination of compliance with Section 5.03, a statement of reconciliation conforming such financial statements to GAAP and (B) consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and consolidating statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year;

(iii) as soon as possible and in any event within three Business Days after any executive officer of the Borrower obtains knowledge of the occurrence of any Default or any event, development or occurrence reasonably likely to have a Material Adverse Effect continuing on the date of such statement, a statement of the chief financial officer of the Borrower setting forth details of such Default or event, development or occurrence reasonably likely to have a Material Adverse Effect and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports that the Borrower sends to its security holders generally, and copies of all reports and effective registration statements that the Borrower or any Subsidiary files with the Securities and Exchange Commission or any national securities exchange, other than registration statements filed on Form S-8, any Form 11-K or any reports or filings made pursuant to PUHCA;

(v) promptly after the commencement thereof (or, if later, the date that the Borrower determines that the applicable action or proceeding is of the type described in Section 4.01(g)), notice of all actions and proceedings before any court, governmental agency or arbitrator against, or to the Borrower's knowledge affecting the Borrower or any of its Material Subsidiaries of the type described in Section 4.01(g);

(vi) promptly and in any event within 15 days after the Borrower or within 30 days after any ERISA Affiliate knows or has reason to know that any ERISA Event has occurred which event has resulted or could reasonably be expected to result in liability exceeding \$10,000,000, a statement of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, that the Borrower or such ERISA Affiliate has taken and proposes to take with respect thereto;

(vii) promptly and in any event within three Business Days after receipt thereof by the Borrower or any ERISA Affiliate, copies of each notice from the PBGC stating its intention to terminate any ERISA Plan or to have a trustee appointed to administer any ERISA Plan;

(viii) promptly and in any event within 20 days after the receipt thereof by the Borrower or within 30 days after the receipt thereof by any ERISA Affiliate, a copy of the annual actuarial report for each ERISA Plan the unfunded current liability of which exceeds \$10,000,000;

(ix) promptly and in any event within five Business Days after receipt thereof by the Borrower or within 10 Business Days after receipt thereof by any ERISA Affiliate from the sponsor of a Multiemployer Plan, copies of each notice concerning (A) the imposition of Withdrawal Liability by any such Multiemployer Plan on the Borrower or an ERISA Affiliate in excess of \$15,000,000 or the incurrence of any current payment obligations on the Borrower or such ERISA Affiliate in excess of \$5,000,000, (B) the reorganization or termination, within the meaning of Title IV of ERISA, of any such Multiemployer Plan that is reasonably likely to result in the imposition of liability on the Borrower or an ERISA Affiliate in excess of \$15,000,000 or the incurrence of any current payment obligations on the Borrower or such ERISA Affiliate in excess of \$5,000,000 or (C) the amount of liability incurred, or that may be incurred, by the Borrower or any ERISA Affiliate in connection with any event described in clause (A) or (B);

(x) promptly after the assertion or occurrence thereof, notice of any Environmental Action against or of any noncompliance by the Borrower or any of its Material Subsidiaries with any Environmental Law or Environmental Permit that would reasonably be expected to have a Material Adverse Effect;

(xi) promptly and in any event within two Business Days after receipt by the Borrower of notice of any change in the Borrower's unsecured long-term debt ratings by Moody's or S&P; and

(xii) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will not:

(a) Liens. Create or suffer to exist, or permit any of its Material Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Material Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens,

(ii) Liens to secure obligations of the Borrower's Subsidiaries owing to the Borrower or to other direct Wholly Owned Subsidiaries of the Borrower that have no debt outstanding other than to the Borrower,

(iii) Liens existing on the date hereof (and not otherwise included in any other subsection of this Section 5.02(a)) and listed on Schedule 5.02(a) hereto,

(iv) Liens on any property acquired by the Borrower or any of its Material Subsidiaries after the date hereof that are existing at the time such property is so acquired and not created in contemplation of the acquisition of such property,

(v) Liens on any property of any Person that becomes a Subsidiary of the Borrower after the date hereof that are existing at the time such Person becomes a Subsidiary, other than any such Lien created in contemplation of such Person becoming a Subsidiary,

(vi) Liens securing Debt of the Borrower or any of its Material Subsidiaries of the type described in Sections 3.03 and 3.04 of the Indenture; provided that, for purposes of this clause

(vi), (A) references to "Secured Debt", "Funded Debt" or "Debt" in Sections 3.03 and 3.04 of the Indenture shall be deemed to refer to "Debt" as defined herein, (B) references to the "Company" in Section 3.03 of the Indenture shall be deemed to refer to the "Borrower" or any "Material Subsidiary" as defined herein, and (C) references to "Significant Subsidiary" in Section 3.04 of the Indenture shall be deemed to refer to any "Material Subsidiary" as defined herein,

(vii) assignments of receivables for collection in the ordinary course;

(viii) sale of receivables in asset securitization transactions;

(ix) other Liens securing Debt and other obligations in an aggregate principal amount not to exceed \$25,000,000 outstanding,

(x) other Liens and assignments, not securing Debt for borrowed money, which, individually or in aggregate, are not reasonably likely to have a Material Adverse Effect, provided that the total aggregate principal amount of Debt or other obligations secured by Liens and assignments under this clause (x) shall not exceed \$50,000,000 outstanding, and

(xi) except as otherwise restricted or prohibited in the Indenture, the replacement,

extension or renewal of any Lien permitted above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby.

(b) Mergers. Merge or consolidate with or into, or sell, lease, transfer or otherwise dispose of its property or assets as, or substantially as, an entirety in a single transaction or a series of transactions to, any Person, except that the Borrower may merge with any other Person so long as the Borrower is the surviving corporation (or the surviving corporation shall be approved by Lenders holding 80% of the Revolving Credit Commitments), provided, in each case, that (i) no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom and (ii) the Borrower shall be able to satisfy all of the conditions set forth in Section 3.02 at the time of such proposed transaction and immediately thereafter.

(c) Sale of Assets. Sell, convey, transfer or otherwise dispose of (whether in one transaction or in a series of transactions), without the written consent of the Required Lenders, (i) more than 25% of its equity investments (measured as of the date of such sale, conveyance, transfer or other disposition) in or (ii) more than 25% of the fair market value (measured as of the date of such sale, conveyance, transfer or other disposition) of the assets (excluding accounts receivable and current inventory held for sale) of either one of the following groups:

Group I: Columbia Gas Transmission Corporation; Columbia Gulf Transmission Company

Group II: Columbia Gas of Kentucky, Inc.; Columbia Gas of Maryland, Inc.; Columbia Gas of Ohio, Inc.; Columbia Gas of Pennsylvania, Inc.; Columbia Gas of Virginia, Inc.;

provided, however, that in no event may the aggregate of all sales, conveyances, transfers and other dispositions by the Borrower from the Effective Date through the Termination Date result in the sale, conveyance, transfer or other disposition, without the written consent of the Required Lenders, of (i) more than 25% of its equity investments (measured as of the date hereof) in or (ii) more than 25% of the fair market value (measured as of the date hereof) of the assets (excluding accounts receivable and current inventory held for sale) of either one of the above groups; and provided further, that any sales, conveyances, transfers and other dispositions shall not be counted for purposes of this covenant to the extent that proceeds therefrom are reinvested in any of the entities listed in Group I or Group II and only to the extent that any debt incurred by such entity in connection with such reinvestment would have been permitted if the assets comprising such reinvestment were assets held as of the date of this Agreement; and provided still further that, in any calendar year, sales, conveyances, transfers or other dispositions of property in the ordinary course of business with a value of up to \$10,000,000 collectively for Groups I and II shall not be counted for purposes of this covenant.

(d) Limitation on Subsidiary Debt. Permit its Significant Subsidiaries (as defined in the Indenture) to incur any Funded Debt (as defined in the Indenture) other than as permitted in the Indenture.

(e) Limitation on Material Subsidiary Funding. Enter into any agreement or understanding, and shall not permit any Material Subsidiary to (except with the Borrower) enter into any agreement or understanding, which by its terms limits, in any material respect, a Material Subsidiary's ability to make funds available to the Borrower (whether by way of dividend or other distribution or by way of repayment of intercompany indebtedness); provided, however, that the foregoing shall not prohibit (i) agreements and understandings to which a Subsidiary is a party on the date such Subsidiary first becomes

a Subsidiary, (ii) customary provisions in leases and other contracts that prohibit the assignment thereof and (iii) agreements or understandings in connection with Liens permitted hereunder that apply only to the property subject to such Liens.

SECTION 5.03. Leverage Ratio. So long as any Advance shall remain unpaid, any Letter of Credit shall be outstanding or any Lender shall have any Revolving Credit Commitment hereunder, the Borrower will maintain a ratio of Total Debt to the sum of Total Debt plus Tangible Net Worth of not greater than the amount set forth below for each relevant period set forth below:

Relevant Period -----	Ratio -----
Effective Date - 12/30/98	
0.675:1.00	
12/31/98 - 12/30/00	
0.650:1.00	
12/31/00 - Termination Date	
0.625:1.00	

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

- (a) the Borrower shall fail to pay any principal of any Advance when the same becomes due and payable, or the Borrower shall fail to pay any interest on any Advance or make any other payment of fees or other amounts payable under this Agreement, any Loan Document or any 364-Day Loan Document within five Business Days after the same becomes due and payable; or
- (b) any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in connection with or pursuant to this Agreement shall prove to have been incorrect in any material respect when made; or
- (c) (i) the Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as it applies to the Borrower's existence) or (h), 5.01(i)(vi) through (ix), 5.02 or 5.03, or
(ii) the Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(e) or (i) (other than 5.01(i)(vi) through (ix)) and such failure shall remain unremedied for 10 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender and (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed and such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or
- (d) (i) the Borrower or any of its Material Subsidiaries (other than any Project Finance Subsidiaries) shall fail to pay any principal of or premium or interest on any Debt that is outstanding in a principal amount of at least \$30,000,000 in the aggregate (but excluding Debt outstanding hereunder) of the Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate the maturity of such

Debt; or (iii) any such Debt shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; provided, however, that the foregoing clauses (ii) and (iii) shall not apply to any Debt that becomes due or is required to be repaid as a result of the sale or other disposition of, or any casualty or condemnation with respect to, any property securing such Debt, the voluntary termination of any Capitalized Lease, or other circumstances that are not in the nature of a default by or altered circumstances of the obligor in respect of such Debt; or

(e) the Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property under any such law and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) any final judgment or non-appealable order for the payment of money in excess of \$30,000,000 shall be rendered against the Borrower or any of its Material Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or

(ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) any non-monetary judgment or order shall be rendered against the Borrower or any of its Subsidiaries that could be reasonably expected to have a Material Adverse Effect, and there shall be any period of ten consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) (i) any Person or two or more Persons acting in concert (excluding any thrift plan or any other employee benefit plan of the Borrower) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of Voting Stock of the Borrower (or other securities convertible into such Voting Stock) representing 20% or more of the combined voting power of all Voting Stock of the Borrower (determined on a fully diluted basis); or (ii) during any period of up to 24 consecutive months, commencing after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of the Borrower shall cease for any reason to constitute a majority of the board of directors of the Borrower (it being understood that, for purposes of this clause, individuals elected to become new directors of the Borrower during a 24-month period shall be deemed to have been directors of the Borrower at the beginning of such period if the election or nomination of such individuals as directors was approved by a majority of those individuals who at the beginning of such 24-month period were directors of the Borrower and any new directors so approved); or

(iii) any Person or two or more Persons acting in concert shall have acquired by contract or otherwise (excluding employment contracts with officers of the Borrower), or shall have entered into a contract or arrangement (excluding employment contracts with officers of the Borrower) that, upon consummation, will result in its or their

acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Borrower; or

(i) the Borrower or any of its ERISA Affiliates shall incur, or, in the reasonable opinion of the Required Lenders, shall be reasonably likely to incur liability in excess of \$30,000,000 in the aggregate as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of the Borrower or any of its ERISA Affiliates from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan;

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances (other than Letter of Credit Advances) or to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the Notes, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code (A) the obligation of each Lender to make Advances (other than Letter of Credit Advance) and issue Letters of Credit shall automatically be terminated and (B) the Notes, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

SECTION 6.02. Actions in Respect of Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Borrower to, and forthwith upon such demand the Borrower will, pay to the Agent on behalf of the Lenders in same day funds at the Agent's office designated in such demand, for deposit in the L/C Cash Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Agent determines that any funds held in the L/C Cash Collateral Account are subject to any right or claim of any Person other than the Agent and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Collateral Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Collateral Account that the Agent determines to be free and clear of any such right and claim.

ARTICLE VII

THE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by the Borrower pursuant to the terms of this

Agreement.

SECTION 7.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may treat the payee of any Note as the holder thereof until the Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section

8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of the Borrower or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. Citibank and Affiliates. With respect to its Revolving Credit Commitment the Advances made by it and the Note issued to it, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders (other than the Designated Bidders) agree to indemnify the Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Revolving Credit Notes then held by each of them (or if no Revolving Credit Notes are at the time outstanding or if any Revolving Credit Notes are held by Persons that are not Lenders, ratably according to the respective amounts of their Revolving Credit Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender (other than the Designated Bidders) agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights

or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

SECTION 7.06. Successor Agent. The Agent may resign at any time by giving ten days' written notice thereof to the Lenders and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent with the consent of the Borrower (which consent shall not be unreasonably withheld). If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders with the consent of the Borrower (which consent shall not be unreasonably withheld), appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 7.07. Senior Managing Agents and Co-Documentation Agents as Lenders. No Senior Managing Agent and or Co-Documentation Agent shall have any rights, responsibilities or obligations other than as a Lender hereunder.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. Other than as specified in Section 2.01(b) or 5.02(b), no amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders (other than the Designated Bidders), do any of the following: (a) waive any of the conditions specified in Section 3.01, (b) increase the Revolving Credit Commitments of the Lenders or subject the Lenders to any additional obligations, (c) reduce the principal of, or interest on, the Notes or any fees or other amounts payable to the Lenders hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable to the Lenders hereunder, (e) change the percentage of the Revolving Credit Commitments of the aggregate unpaid principal amount of the Notes, or the number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder or (f) amend this

Section 8.01; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note.

SECTION 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic or telex communication) and mailed, telecopied, telegraphed, telexed or delivered, if to the Borrower, at its address at 12355 Sunrise Valley Drive, Suite 300, Reston, VA 20191, Attention: Treasurer; if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at 2 Penn's Way, Suite 200, New Castle, Delaware 19720, Attention: Pia Saenganan with a copy to Citicorp Securities, Inc., 1200 Smith

Street, Suite 2000, Houston, Texas 77002, Attention: David Gorte, or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed, telecopied, telegraphed or telexed, be effective when deposited in the mails, telecopied, delivered to the telegraph company or confirmed by telex answerback, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses; Indemnification; Limitation of Liability. (a) The Borrower agrees to pay on demand all costs and expenses of the Agent and the Arranger in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, (i) all due diligence, syndication (including expenses related to printing, distribution and bank meetings), transportation, computer and duplication expenses and (ii) the reasonable fees and expenses of counsel for the Agent and the Arranger with respect thereto and with respect to advising the Agent and the Arranger as to their respective rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent, the Arranger and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this

Section 8.04(a).

(b) (i) The Borrower agrees to indemnify and hold harmless the Agent, the Arranger, each Managing and Co-Syndication Agent, each Lender and each Issuing Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and reasonable expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with (i) the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances and (ii) the issuance of any Letter of Credit or the payment of any amount thereunder, in each case whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(ii) Any action, inaction or omission suffered or taken by any Issuing Lender in connection with any Letter of Credit, if taken in good faith and in conformity with foreign or U.S. laws or regulations, shall be binding upon the Borrower and shall not place any Issuing Lender under any resulting liability to the Borrower. Without limiting the generality of the foregoing, the Issuing Lenders (a) may act in reliance upon any oral, telephonic, telegraphic, facsimile electronic or written request or notice in good faith believed to have been authorized by the Borrower, (b) shall not be responsible for the form, genuineness, identity or authority of any signer, or falsification or legal effect of documents presented under any Letter of Credit, if such documents on

their face appear to be in order, (c) may accept or pay as complying with the terms of any Letter of Credit any drafts or other documents appearing on their face to be signed by or issued to the administrator, executor, successor or trustee in bankruptcy of, or the receiver of any property of, or any other person or entity acting as the representative or in the place of the beneficiary, (d) may waive inconsequential discrepancies and letter of credit terms imposed solely for bank convenience or bank protection and (e) shall be fully protected in acting in accordance with any prevailing banking usage. Assistance provided by any Issuing Lender in preparing the text of any Letter of Credit shall not deem such Issuing Lender the drafter of such Letter of Credit and such Issuing Lender shall not be responsible for the effectiveness or suitability of such Letter of Credit for the Borrower's commercial purpose. Notwithstanding anything contained in this Section 8.04(b) or in Section

2.06(c)(ii), no Issuing Lender will be excused from any liability for damage, loss or expense if such damage, loss or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Issuing Lender's gross negligence or willful misconduct; provided, however, that no Issuing Lender shall be liable to the Borrower for any consequential or special damages relating to any Letter of Credit.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance or LIBO Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or

2.12, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.12, 2.15 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

SECTION 8.05. Right of Setoff. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Notes due and payable pursuant to the provisions of Section 6.01, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Note held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Lender under this Section are in addition to other rights and remedies (including, without limitation, other rights of setoff) that such Lender and its Affiliates may have.

SECTION 8.06. Binding Effect. This Agreement shall become effective (other than Sections 2.01 and 2.03, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07. Assignments, Designations and Participations. (a) Each Lender (other than the Designated Bidders) may, upon the written consent of the Borrower (which consent shall not be unreasonably

withheld) and, if demanded by the Borrower (following a demand by such Lender pursuant to Section 2.12 or 2.15 or notice from such Lender pursuant to Section

2.13) upon at least five Business Days' notice to such Lender and the Agent, will, assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment, the Advances owing to it and the Note or Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any right to make Competitive Bid Advances, Competitive Bid Advances owing to it and Competitive Bid Notes), (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Revolving Credit Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than the lesser of (A) 1% of the total Revolving Credit Commitment, (B) \$5,000,000 or (C) the full amount of such assigning Lender's Revolving Credit Commitment, (iii) unless an assigning Lender assigns the full amount of its Revolving Credit Commitment, such assigning Lender may not assign Revolving Credit Commitments such that its remaining Revolving Credit Commitments are in an amount less than the lesser of (A) 1% of the total Revolving Credit Commitment or (B) \$5,000,000, (iv) each such assignment shall be to an Eligible Assignee, (v) each such assignment made as a result of a demand by the Borrower pursuant to this Section 8.07(a) shall be arranged by the Borrower after consultation with the Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (vi) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrower pursuant to this Section 8.07(a) unless and until such Lender shall have received one or more payments from either the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement, and (vii) the parties to each such assignment shall provide the Agent with written notice of such assignment and shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Revolving Credit Note subject to such assignment and a processing and recordation fee of \$3,000 (provided, that in the case of a ratable assignment of a Lender's Revolving Credit Commitments and such Lender's commitments under the 364-Day Loan Documents, such processing and recordation fee shall only be payable once with respect to both assignments); provided further that in the case of an assignment by any Lender to an Affiliate of such Lender, or an assignment by any Lender to any other Lender, the Borrower must be given written notice thereof, but the consent of the Borrower shall not be required. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such

assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Revolving Credit Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, subject to the Borrower's consent thereto (if required), (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within ten Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Revolving Credit Note a new Note to the order of such Eligible Assignee in an amount equal to the Revolving Credit Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Revolving Credit Commitment hereunder, a new Revolving Credit Note to the order of the assigning Lender in an amount equal to the Revolving Credit Commitment retained by it hereunder. Such new Revolving Credit Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Revolving Credit Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A-1 hereto.

(d) Each Lender (other than the Designated Bidders) may designate one or more banks or other entities to have a right to make Competitive Bid Advances as a Lender pursuant to Section 2.03; provided, however, that (i) no such Lender shall be entitled to make more than two such designations, (ii) each such Lender making one or more of such designations shall retain the right to make Competitive Bid Advances as a Lender pursuant to Section 2.03, (iii) each such designation shall be to a Designated Bidder and (iv) the parties to each such designation shall execute and deliver to the Agent, for its acceptance and recording in the Register, a Designation Agreement. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Designation Agreement, the designee thereunder shall be a party hereto with a right to make Competitive Bid Advances as a Lender pursuant to Section 2.03 and the obligations related thereto.

(e) By executing and delivering a Designation Agreement, the Lender making the designation thereunder and its designee thereunder confirm and agree with each other and the other parties hereto as follows: (i) such Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such designee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Designation Agreement; (iv) such designee will, independently and without reliance upon the Agent, such designating Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such designee confirms that it is a

Designated Bidder; (vi) such designee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such designee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(f) Upon its receipt of a Designation Agreement executed by a designating Lender and a designee representing that it is a Designated Bidder, the Agent shall, if such Designation Agreement has been completed and is substantially in the form of Exhibit D hereto, (i) accept such Designation Agreement, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower.

(g) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance and each Designation Agreement delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and, with respect to Lenders other than Designated Bidders, the Revolving Credit Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(h) Each Lender may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment, the Advances owing to it and the Note or Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Revolving Credit Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(i) Any Lender may, in connection with any assignment, designation or participation or proposed assignment, designation or participation pursuant to this Section 8.07, disclose to the assignee, designee or participant or proposed assignee, designee or participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee, designee or participant or proposed assignee, designee or participant shall agree to preserve the confidentiality of any Confidential Information relating to the Borrower received by it from such Lender on the terms set forth in Section 8.08.

(j) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and the Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.08 Confidentiality. Neither the Agent nor any Lender shall disclose any

Confidential Information to any other Person without the consent of the Borrower, other than (a) to the Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(i), to actual or prospective assignees and participants, provided that any Person to whom disclosure is made shall agree to be bound by this Section, (b) as required by any law, rule or regulation or judicial process, provided that, to the extent practicable, prior notice of such disclosure shall be given to the Borrower, (c) to any rating agency when required by it, provided that, prior to any such disclosure, such rating agency shall undertake to preserve the confidentiality of any Confidential Information relating to the Borrower received by it from such Lender, and (d) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking. Each Lender and each other Person required to preserve the confidentiality of Confidential Information hereunder shall use such information only for purposes of evaluating extensions of credit to the Borrower and its Subsidiaries.

SECTION 8.09. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York. Each Letter of Credit issued under this Agreement shall be governed by, and construed in accordance with, the Uniform Customs and Practice for Documentary Credits, version 500, published by the International Chamber of Commerce (the "UCP") or such later version in effect at the time of the issuance of the Letter of Credit. Matters not addressed by the UCP shall be subject to and governed by the laws of the State of New York.

SECTION 8.10 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.11. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court for any thereof, in any action or proceeding arising out of or relating to this Agreement or the Notes, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 8.12. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

COLUMBIA ENERGY GROUP

By

Title:

**CITIBANK, N.A.,
as Administrative Agent**

By /s/ Mark Stanfield Packard

*Name: MARK STANFIELD PACKARD
Title: Vice President*

Initial Lenders

*Revolving Credit
Commitment*

\$50,000,000.00

CITIBANK, N.A.,

By /s/ Mark Stanfield Packard

*Name: MARK STANFIELD PACKARD
Title: Vice President*

*Revolving Credit
Commitment*

\$50,000,000.00

PNC BANK, NATIONAL ASSOCIATION

By /s/ Thomas A. Majeski

*Name: Thomas A. Majeski
Title: Vice President*

Initial Lenders (continued)

Revolving Credit
Commitment

\$50,000,000.00

THE CHASE MANHATTAN BANK

By /s/ Mary Jo Woodford

Name: MARY JO WOODFORD
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$50,000,000.00

MORGAN GUARANTY
TRUST COMPANY OF NEW YORK

By /s/ Kathryn Sayko-Yanes

Name: KATHRYN SAYKO-YANES
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$33,333,333.33

BANK OF MONTREAL

By /s/ Elizabeth F. Trapp

Name: Elizabeth F. Trapp
Title: Director

Revolving Credit
Commitment

\$33,333,333.33

CANADIAN IMPERIAL BANK OF COMMERCE

By /s/ Michael A.G. Corkum

Name: Michael A.G. Corkum
Title: AUTHORIZED SIGNATORY

Initial Lenders (continued)

Revolving Credit
Commitment

\$25,000,000.00

BANKERS TRUST COMPANY

By /s/ Mr. Marcus M. Tarkington

Name: Mr. Marcus M. Tarkington
Title: Principal

Revolving Credit
Commitment

\$10,000,000.00

BANK OF TOKYO-MITSUBISHI TRUST COMPANY

By /s/ J. A. Don

Name: J. A. DON
Title: VP & MGR

Revolving Credit
Commitment

\$6,666,666.66

UNION BANK OF CALIFORNIA

By /s/ David A. Musicant

Name: David A. Musicant
Title: Vice President

Revolving Credit
Commitment

\$16,666,666.67

THE FIRST NATIONAL BANK OF CHICAGO

By /s/ Madeleine N. Pember

Name: MADELEINE N. PEMBER
Title: Assistant Vice President

Initial Lenders (continued)

Revolving Credit
Commitment

\$16,666,666.67

THE FIRST NATIONAL BANK OF MARYLAND

By /s/ Shaun E. Murphy

Name: Shaun E. Murphy
Title: Senior Vice President

Revolving Credit
Commitment

\$16,666,666.67

FIRST UNION NATIONAL BANK

By /s/ Michael J. Kolosowsky

Name: MICHAEL J. KOLOSOWSKY
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$16,666,666.67

NATIONAL CITY BANK

By /s/ Jeffrey L. Hawthorne

Name: JEFFREY L. HAWTHORNE
Title: VICE PRESIDENT

Revolving Credit
Commitment

\$15,000,000.00

COMMERZBANK

By /s/ Dempsey L. Gable

Name: Dempsey L. Gable
Title: Senior Vice President

/s/ Andrew Kjoller

Andrew Kjoller
Assistant Treasurer

Initial Lenders (continued)

Revolving Credit
Commitment

\$10,000,000.00

ARAB BANK, PLC

By /s/ Michael Barker

Name: Michael Barker
Title:

Revolving Credit
Commitment

\$10,000,000.00

THE BANK OF NOVA SCOTIA

By /s/ F. C. Ashby

Name: F. C. H. Ashby
Title: Senior Manager
Loan Operations

Revolving Credit
Commitment

\$10,000,000.00

CRIDIT AGRICOLE INDOSUEZ

By /s/ Dean Balice

Name: DEAN BALICE
Title: SENIOR VICE PRESIDENT
BRANCH MANAGER

By /s/ David Eouhl

Name: DAVID EOUHL F.V.P.
Title: HEAD OF CORPORATE BANKING
CHICAGO

Revolving Credit
Commitment

\$10,000,000.00

CRESTAR BANK

By /s/ Nancy R. Petrash

Name: Nancy R. Petrash
Title: Senior Vice President

Initial Lenders (continued)

Revolving Credit
Commitment

\$10,000,000.00

BANCA MONTE DEI PASCHI DI SIENA, S.p.A.

By /s/ S. M. Sondak

Name: S. M. Sondak
Title: F.V.P. & Dep. General Manager

By /s/ Brian R. Landy

Name: Brian R. Landy
Title: Vice President

Revolving Credit
Commitment

\$10,000,000.00

SOCIETE GENERALE

By /s/ Gordon Eadon

Name: Gordon Eadon
Title: Vice President

Exhibit 10-CF

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU.") is made and entered into as of this 1st day of December, 1997 by and between Columbia Gas Transmission Corporation ("Columbia"), Westcoast Energy (U.S.), Inc. ("Westcoast"), MCN Investment Corporation ("MCN"), and TransCanada PipeLines Limited ("TransCanada"), sometimes collectively referred to herein as the "Parties" and each individually as a "Party").

RECITALS:

A. Columbia currently owns and operates as part of its interstate natural gas transmission system the following facilities: (1) Line A-5, consisting of 8" to 24" diameter pipe located in the State of New York; (2) the portion of Line 1278 and Line K from Milford, Pennsylvania to its interconnection with Line A-5; and (3) other related lines, appurtenant facilities, land and land rights (collectively referred to herein as the "A-5 System").

B. The Parties desire to form a new entity (the "Enterprise") which would acquire a portion of the A-5 System and add new facilities to operate as a new interstate natural gas transmission system. The resulting system is planned to extend from a new Lake Erie export point interconnecting with TransCanada PipeLines Limited to a terminus in Westchester County, New York as described on Exhibit A attached hereto (the "Project").

C. The Parties are desirous of entering into this MOU in order to (i) set out their respective participation interests in the Project, (ii) ascertain the potential demand for the Project, including assessment of supply, end-use demand, pricing, preliminary routing and potential regulatory and environmental issues for the Project, (iii) provide for a method of funding the activities of the Parties and (iv) provide for the management of the Project, all prior to or concurrently with the negotiation and execution of definitive agreements concerning the ownership, structure and operation of the Enterprise.

NOW, THEREFORE, in consideration of the mutual benefits to be derived, the representations, warranties, conditions and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE 1
PROJECT DEVELOPMENT, MANAGEMENT AND OWNERSHIP

1.1 Project. The Project will consist of the acquisition of a portion of the A-5 System and the development of new facilities into an approximately 400 mile long 24 and 36 inch diameter high pressure natural gas pipeline with a preliminary estimated capacity to exceed 575 MMcf per day.

1.2 Ownership. The ownership of the Enterprise and the participation interests in the Project shall be as follows:

Columbia
47.5%
Westcoast
21%
MCN
10.5%
TransCanada
21%

The admittance of a new party to the Enterprise and the Project shall be permitted, subject to Section 6.03, only by the unanimous vote of the Management Committee.

1.3 Equity Contribution. Each Party's equity contribution to the Enterprise shall equal its percentage ownership interest in the Enterprise; provided, however, Columbia's contribution will consist, in part, of a portion of the A-5 System. The value of Columbia's A-5 System contribution will be the net book value of the A-5 System (partial facilities, easements and rights-of-way) assigned to the Enterprise which Columbia estimates to be approximately \$18,400,000 (U.S.) at May, 1999. This contribution shall be reduced by the cost of any environmental remediation to the contributed facilities, which Columbia estimates to be approximately \$1,000,000 (U.S.). Furthermore, this contribution will be made to the Enterprise pursuant to an agreement (the "Contribution Agreement") that addresses, among other things, final valuation of the contribution, the appropriate representations and warranties as to title and condition of the assets, and agreement on pre-existing liabilities.

1.4 Development of Project. Columbia will construct, operate and maintain the Project for the Enterprise under competitive rates and in accordance with a development agreement (the "Development Agreement") and an operating, maintenance and management agreement (the "Operating Agreement") to be negotiated between Columbia and the Enterprise. It is anticipated that Columbia, pursuant to the Development Agreement and Operating Agreement, will be reimbursed for certain indirect expenditures incurred in connection with the development of the Project and operation of the Enterprise.

1.5 Definitive Agreements. Following completion of the feasibility assessment referred to in Section 2.01 and a finding by the Management Committee that the Project is feasible, the Parties agree to utilize commercially prudent efforts to negotiate any and all definitive agreements, including but not limited to the Development Agreement, the Operating Agreement, the Contribution Agreement, and all other agreements that are necessary to form the Enterprise and to develop, operate and manage the Project (collectively, the "Definitive Agreements").

ARTICLE 2
PROJECT IMPLEMENTATION, FEASIBILITY AND MANAGEMENT

2.1 Feasibility of Project. During the term of this MOU, the Parties, including any additional parties which may be admitted to the Enterprise, agree to work together to assess the overall feasibility of the Project. Such feasibility shall include, but not be limited to, various studies, engineering and analysis, rate design, marketing activities and Open Season participation. Subsequent to a finding by the Management Committee that the Project is feasible, the Parties intend to develop, finance, construct and operate the Project. Attached hereto as Exhibit B is the schedule setting forth the proposed time line for accomplishing certain objectives for the Project.

2.2 Management Committee. During the term of the MOU, the Project shall be managed by a Management Committee (the "Management Committee") which shall be comprised of one (1) representative from each Party. Each Party shall appoint and designate in writing their own representative to serve on the Management Committee. The initial representatives to serve on the Management Committee upon the execution of this MOU shall be:

- (a) Columbia Representative: David Pentzien
- (b) Westcoast Representative: John Wolnik
- (c) MCN Representative: Mike Feodorov
- (d) TransCanada Representative: Brian Fowler

The representatives shall serve on the Management Committee until such time as he or she resigns, is replaced by another representative, or the appointing party ceases to be a Party. Each Party shall have the right from time to time and at any time to designate in writing to the other Parties an alternate or substitute representative to serve on the Management Committee. It is anticipated by the Parties that the Definitive Agreements will provide for the same management structure as set forth in this MOU with such modifications as may be agreed by the Parties.

2.3 Duties of Management Committee. The Management Committee shall conduct, direct and exercise full control over all activities of the Enterprise and the Project. Except as otherwise expressly provided herein, all management powers over the business and affairs of the Project and Enterprise shall be exclusively vested in the Management Committee. The Management Committee shall have full power and authority to do all things necessary or desirable by it to further the development of the Project and formation of the Enterprise.

2.4 Chairman of the Management Committee. The Parties hereby agree that Columbia shall have the right to appoint the initial Chairman of the Management Committee for a term of (2) years after the in service date. The Chairman shall disburse all payments, maintain accounts and financial records and carry on all other financial matters in furtherance of the Enterprise. The Chairman shall have the authority to make all approved expenditures on behalf of the Enterprise and to make expenditures which vary from the budgeted amounts so long as such budget modifications do not cause the cumulative budget amount to exceed lesser of (a) ten

percent (10%) of the cumulative budget or (b) \$5,000 (U.S.) without approval from the Management Committee. In addition, the Chairman shall be responsible for notifying the representatives of each meeting of the Management Committee, presiding over each such meeting and ensuring that accurate minutes of each meeting are kept and distributed to each representative.

2.5 Meetings of the Management Committee. The business of the Management Committee shall be conducted at regular meetings, which shall be held, at such date, time and place as shall from time to time be determined by the Management Committee upon two (2) days advance written notice. In no event shall meetings occur less than once a month.

2.6 Voting. Except as otherwise provided herein, the day-to-day business activities of the Enterprise shall be approved by the affirmative vote of at least two members of the Management Committee representing at least fifty and one-tenth percent (50.1%) of the proposed ownership interests in the Enterprise as set forth in Section 1.02. Voting may be in person, by proxy or in any other manner as deemed appropriate by the Management Committee. The following decisions shall require the approval of all of the members of the Management Committee entitled to vote thereon:

- (a) Approval of the Contribution Agreement
- (b) Approval of the Development Agreement
- (c) Approval of the Operating Agreement
- (d) Approval of the Lease Agreement
- (e) Subject to Section 2.04, amendment of the 1997 and 1998 Budgets
- (f) Any other material agreement by Columbia on behalf of the Project with Columbia or its affiliates
- (g) A finding the Project is feasible pursuant to Section 2.01
- (h) All precedent agreements

2.7 Action Without Meeting. Any action required or permitted to be taken by the Management Committee at any meeting may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all of the representatives of the Management Committee. Such consent shall have the same force and effect as if such action was taken at a meeting of the Management Committee.

2.8 Telephone Meetings. The Management Committee may hold, and each member thereof may participate in, a meeting of the Management Committee by using conference telephone or similar communications equipment by means of which all members participating in the meeting can hear each other, and participation in such meeting shall constitute presence in person at such meeting.

ARTICLE 3
BUDGET AND CASH CONTRIBUTIONS

3.1 Budget. The initial budget (the "Budget"), delineated by line item of expenditure for each month for 1997 is attached hereto as Schedule 3.01. Upon request, the Parties shall be entitled to receive a full accounting of all expenditures to date and shall be entitled to audit such costs.

3.2 Cash Calls. At the direction of the Management Committee, the Chairman shall make written calls for cash contributions ("Cash Calls") from the Parties to fund the Budget. Such Cash Calls shall be made no more frequently than once a month. Each Party's contribution shall be proportionate to the equity participation in the Project described in Section 1.02 of this MOU. Each Party shall bear its proportionate share of all historical costs and expenses incurred by Columbia through and including the date of execution of this Agreement and shall pay such proportionate shares of costs and expenses to Columbia on or before ten (10) days of execution of this Agreement; provided that any such payment shall be subject to adjustment if the Management Committee so determines as a result of any audit performed pursuant to Section 3.01. Each Party shall tender its share of the Cash Call within ten (10) days of receipt of the notice of such Cash Call from the Chairman. Any payments not made timely shall accrue interest charges at the prime rate of interest charged by Citibank, N.A. for the applicable period plus two (2) percentage points. If a Party remains in arrears on the payment of any Cash Call for more than forty-five (45) days, then the representatives of those Parties of the Management Committee representing at least a majority of the proposed ownership interest in the Project who are not in arrears with respect to any Cash Calls may by written notice terminate that Party's rights to participate in the Enterprise, with no recourse against the remaining Parties and with no right to refund of amounts already paid in response to Cash Calls. In addition, the defaulting Party shall remain liable for all unpaid Cash Calls for which that Party remains in arrears.

3.3 Recoverable Costs. The recovery of expenses associated with employees of individual Parties will not be permitted unless provided for in the Budget or expressly approved by the Management Committee. Attached hereto as Schedule 3.03 is a list of all Columbia employees that are permitted to recover labor and reasonable overhead expenses and all reasonable travel and travel related expenses that are for the benefit of the Project. These expenses are reflected in Schedule 3.01. Employee expenses of non Columbia employees which are permitted to be recovered shall be recoverable at the rate of \$400.00 per day plus all reasonable travel and travel related expenses of such employees that are for the benefit of the Project and approved by the Management Committee, provided they are submitted within 45 days of the end of the month in which the expenses were incurred. All costs and expenses incurred by the Parties prior to the execution of this MOU shall be deemed to be contributions to the Enterprise only if such costs and expenses are approved by the Management Committee and submitted within 45 days of execution of the MOU.

ARTICLE 4
NON-COMPETITION AND CONFIDENTIALITY

4.1 Non-Compete. The Parties agree to work exclusively with one another, to evaluate the Project and to complete the Project if the results of the due diligence and studies indicate positive feasibility. The Parties agree not to participate in the development of or invest in, directly or indirectly as an equity participant, any other greenfield project or venture into the U.S. Northeast which, if developed, would offer natural gas transportation services in competition with the Project until the later of (a) the filing of the application for approval of a FERC certificate of public convenience and necessity authorizing the Project or (b) the expiration of one (1) year from the date of this MOU, unless a Party discloses such interest in a potentially competing project and receives written consent to participate from the Management Committee. The Parties shall be free to pursue any complimentary or non-competing ventures without the participation of any other Party. The Parties hereby agree that Columbia's service on its existing transmission system and Columbia's market expansion project authorized pursuant to FERC Docket No. CP96-213 will not be deemed as a violation of its covenant not to compete. The Parties further acknowledge that Westcoast is involved in the Maritimes and Northeast Pipeline Project, MCN is involved in the Portland Natural Gas Transmission Project, and TransCanada is involved in the TransMaritime Gas Transmission Project, Iroquois Gas Transmission and the Portland Natural Gas Transmission Project, as well as the TransCanada PipeLine, Limited Canadian Mainline, and the Parties agree that participation or ownership in any of the aforementioned projects or pipelines, or any contemplated or future expansions thereof, will not be a violation of the covenant not to compete.

4.2 Confidentiality. The Parties agree that the nature, existence and terms of this MOU shall be subject to the terms and conditions of the Confidentiality Agreements (the "Confidentiality Agreements") previously executed by the Parties.

ARTICLE 5
TERMINATION

5.1 Definitive Agreement Supersedes. Upon the execution of the Definitive Agreements contemplated in Section 1.05, this MOU shall be wholly superseded.

5.2 Project Not Feasible. Upon unanimous determination by the Parties in writing that the Project is not feasible and will not be pursued, this MOU shall terminate with no continuing rights or obligations except as provided in Section 4.02; provided, however, that the covenant not to compete will be released for all Parties. Further, should this MOU be terminated as provided for in this Section 5.02, the Parties shall not be entitled to reimbursement of any expenses incurred in furtherance of the Project incurred through the date of termination; provided, however, the Parties shall remain liable for all expenses incurred and previously authorized by the Management Committee.

5.3 Withdrawal by Individual Parties. At any time prior to the execution of the Definitive Agreements, any Party may withdraw from its participation in the Project and this

MOU by delivering to the Management Committee written notice of its intention to withdraw. No Party withdrawing pursuant to this Section 5.03 shall be entitled to reimbursement of any expenses in furtherance of the Project incurred through the date of withdrawal and such Party shall remain liable for all Cash Calls made prior to the date of such withdrawal; provided, however, if the remaining Parties continue the Project, then the withdrawing Party shall be entitled to an amount equal to its cash contributions to the Enterprise upon the commencement of commercial service of the Project or upon the introduction of a substitute Party to the Enterprise, so long as either occurs within five years from the date of withdrawal. Unless the remaining Parties agree otherwise, the remaining Parties will receive a pro rata share of the withdrawing Party's rights in and to the Enterprise and the Project.

5.4 No Agreement. If no Definitive Agreements have been signed by the Parties by February 1, 1998 and the Parties have not elected in writing to continue the terms and conditions of this MOU, then the MOU shall terminate automatically; provided, however, each Party shall continue to be obligated to pay for its share of costs and expenses approved by the Management Committee and incurred prior to the termination of this MOU.

ARTICLE 6 MISCELLANEOUS

6.1 Preliminary Agreement. The Parties acknowledge and agree that this MOU, although binding, is a preliminary agreement between the Parties concerning the Enterprise and the Project and does not contain comprehensive details concerning the management, organization, funding, development, construction, operation, and other matters which will be essential to the Enterprise and the Project and which will be set forth in the Definitive Agreements. The purpose of this MOU is to establish the relationship between, and the obligations of, the Parties prior to execution and delivery of the Definitive Agreements as well as to provide an outline of the basic terms and conditions of the Definitive Agreements. The obligation of the Parties to proceed with the Project and the Enterprise beyond the obligations expressly set forth in this MOU is subject in all respects to the execution and delivery of the Definitive Agreements.

6.2 Relationship of Parties. This MOU does not create a partnership, joint venture or relationship of trust or agency between the Parties.

6.3 Assignment. Except as otherwise provided herein, this MOU shall not be assigned without the prior written consent of the Parties, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, this MOU may be assigned without the consent of the other Parties to (a) a wholly owned affiliate with financial support of the assignor, or an affiliate of equivalent or greater financial capability or (b) following the interest being first offered through a right of first refusal to the remaining Parties to this MOU, any entity succeeding to all or substantially all of the assets of such Party, provided any such assignee expressly agrees in writing to bound by the terms of this MOU.

6.4 Amendment. This MOU may not be altered, changed or amended, except by an instrument in writing executed by all parties hereto.

6.5 Choice of Law. This Agreement shall be governed and construed in accordance with the State of Delaware except to the extent of any laws of the United States of America and any rules, regulations, or orders issued or promulgated thereunder applicable to this Agreement preempt Delaware Law, in which event such Federal Law shall control.

6.6 Notices. Except as may otherwise be specifically provided for elsewhere herein, any notice or communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given (i) if sent by registered or certified mail (return receipt requested) on the date that is five

(5) business days following the date when delivery is made to the U.S. or Canadian Postal Services (ii) if delivered personally, on the date that delivery is made, (iii) if sent by facsimile on a business day during the hours of 8:00 and 5:00 p.m. ET by a facsimile machine which generates an electronic confirmation of such receipt on the date when sent, and if sent by facsimile after 5:00 p.m. ET on a business day, on the next following business day, or

(iii) if sent by overnight mail or overnight courier, on the business day following the day when sent, at the following addresses (or at such other addresses as shall be specified by the Parties from time to time):

Columbia: 12801 Fair Lakes Parkway
Post Office Box 10146
Fairfax, Virginia 22030
Att.: David Pentzien
Telephone: (703) 227-3223
Telecopy: (703) 227-3326

Westcoast: 50 Keil Drive North
Chatham, Ontario
Canada N7M 5M1
Att.: John Wolnik
Telephone: (519) 436-4567
Telecopy: (519) 436-4521

MCN: City Place I
185 Asylum Street, 32nd
Floor
Hartford, CT 06103
Att.: Mike Feodorov
Telephone: (860) 275-6460
Telecopy: (860) 275-6245

TransCanada: TransCanada Pipelines Tower
111 5th Avenue, SW
Calgary Alberta
T2P 3Y6
Att.: Brian Fowler
Telephone: (403) 267-1908
Telecopy: (403) 267-8573

6.7 Damages. No Party shall have any liability to the other Parties for special, incidental, indirect or consequential damages nor for any matter whatsoever associated with the activities covered by this MOU, except as specifically set forth herein.

6.8 Entirety. This MOU and the Confidentiality Agreements constitute the entire agreement between the Parties with respect to the subject matter hereof, and, except for the Confidentiality Agreements, all prior correspondence, memoranda, agreements or understandings (written or oral) with respect hereto are merged into and superseded by this MOU.

6.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

If fewer than all of the Parties execute this MOU, it shall nevertheless be enforceable against the Parties executing this MOU and the ownership of the Enterprise, and the participating interests in the Project shall be adjusted on a pro-rata basis among the Parties that have executed this MOU unless the remaining parties agree otherwise.

IN WITNESS WHEREOF, executed as of the date first written above.

Columbia Gas Transmission Corporation

By: _____
Printed Name: _____
Title: _____

Westcoast Energy (U.S.), Inc.

By: _____
Printed Name: _____
Title: _____

MCN Investment Corporation

By: _____
Printed Name: _____
Title: _____

TransCanada PipeLines Limited

By: _____
Printed Name: _____
Title: _____

By: _____
Printed Name: _____
Title: _____

Exhibit 12

COLUMBIA ENERGY GROUP AND SUBSIDIARIES

Statements of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

(\$ in millions)

	Twelve Months Ended December 31,				
	1997	1996	1995	1994	1993
Consolidated Income (Loss) from Continuing Operations before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Change	392.2	337.5	(643.0)	392.2	288.1
Adjustments:					
Interest during construction	(3.0)	(1.1)	(20.2)	--	--
Distributed (Undistributed) equity income	3.6	1.5	(7.9)	(0.9)	(0.1)
Fixed charges *	182.0	184.6	1,061.3	33.7	120.0
Earnings Available	574.8	522.5	390.2	425.0	408.0
Fixed Charges:					
Interest on long-term and short-term debt	145.6	150.8	987.2	0.7	3.1
Other interest	15.4	13.5	53.6	14.1	98.4
Portion of rentals representing interest	21.0	20.3	20.5	18.9	18.5
Total Fixed Charges **, ***	182.0	184.6	1,061.3	33.7	120.0
Ratio of Earnings Before Taxes to Fixed Charges	3.16	2.83	N/A(a)	12.61	3.40

(a) To achieve a one-to-one coverage, the Corporation would need an additional \$671.1 million of earnings in 1995.

* Amounts for the twelve months ended December 31, 1993 through December 31, 1996 have been restated to conform to 1997 presentation.

** This amount excludes approximately \$230 million and \$210 million of interest expense not recorded for the twelve months ended December 31, 1994 and 1993, respectively. This amount includes interest expense of \$982.9 million including the write-off of unamortized discounts on debentures recorded in 1995. Reference is made to the Statements of Consolidated Income for the twelve months ended December 31, 1995, as reported on Form 10-K and Note 2 of Notes to Consolidated Financial Statements of the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.

*** This amount excludes \$8.6 million of interest expense not recorded with respect to the registrant's guarantee of LESOP Trust's debentures for the twelve months ended December 31, 1994 and 1993.

EXHIBIT 21

**SUBSIDIARIES OF THE COLUMBIA ENERGY GROUP
as of December 31, 1997**

Segment / Subsidiary -----	State of Incorporation -----
Transmission and Storage Operations	
Columbia Gas Transmission Corporation	Delaware
Columbia Gulf Transmission Company	Delaware
Columbia LNG Corporation	Delaware
Distribution Operations	
Columbia Gas of Kentucky, Inc.	Kentucky
Columbia Gas of Maryland, Inc.	Delaware
Columbia Gas of Ohio, Inc.	Ohio
Columbia Gas of Pennsylvania, Inc.	
Pennsylvania	
Columbia Gas of Virginia, Inc.	Virginia
Exploration and Production Operations	
Columbia Natural Resources, Inc.	Texas
Marketing, Propane and Power Generation	
Columbia Atlantic Trading Corporation	Delaware
Columbia Energy Services Corporation	Kentucky
Columbia Propane Corporation	Delaware
Columbia Electric Corporation	Delaware
TriStar Capital Corporation	Delaware
Corporate	
Columbia Energy Group Service Corporation	Delaware
Columbia Insurance Corporation, Ltd	Bermuda
Columbia Network Services Corporation	Delaware

EXHIBIT 23-A

CONSENT

As independent petroleum and natural gas consultants, we hereby consent to the filing of this Letter Report dated January 23, 1998 in its entirety as an Exhibit to the 1997 Annual Report of Columbia Energy Group, to the Securities and Exchange Commission on Form 10-K, and any Registration Statement of Columbia Energy Group, relating to the issue of securities to the public during 1997; to the quotation or summarization of portions of this Letter Report, subject to our approval of the related page(s) of the document(s), in the 10-K, the Prospectus included in said Registration Statement(s) or the 1997 Annual Report to Stockholders; and, subject to approval of the related page(s) of the document(s), to the use of our name and the reliance upon our authority as experts in said Annual Report to Stockholders, Form 10-K and Prospectus(es) and in Part II of said Registration Statement(s). We have no interest of a substantial or material nature in Columbia Energy Group, or in any affiliate, nor are we to receive any such interest as payment for the preparation of this Letter Report; we have not been employed for such preparation on a contingent fee basis; and we are not connected with Columbia Energy Group, or any affiliate as a promoter, underwriter, voting trustee, director, officer, employee, or affiliate.

RYDER SCOTT COMPANY PETROLEUM ENGINEERS

Houston, Texas
January 23, 1998

EXHIBIT 23-B

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 23, 1998, included in Columbia Energy Group's 1997 Annual Report on Form 10-K, into the following previously filed registration statements:

1. Form S-8 of Columbia Energy Group (File No. 33-03869)
2. Form S-8 of Columbia Energy Group (File No. 33-42776)

New York, New York
March 18, 1998

ARTICLE UT
CIK: 0000022099

NAME: COLUMBIA ENERGY GROUP AND SUBSIDIARIES

SUBSIDIARY:

NUMBER: 1

NAME: CEG

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
BOOK VALUE	PER BOOK
TOTAL NET UTILITY PLANT	3,887,400
OTHER PROPERTY AND INVEST	549,400
TOTAL CURRENT ASSETS	1,707,700
TOTAL DEFERRED CHARGES	66,900
OTHER ASSETS	400,900
TOTAL ASSETS	6,612,300
COMMON	554,900
CAPITAL SURPLUS PAID IN	754,200
RETAINED EARNINGS	482,700
TOTAL COMMON STOCKHOLDERS EQ	1,790,700
PREFERRED MANDATORY	0
PREFERRED	0
LONG TERM DEBT NET	2,003,500
SHORT TERM NOTES	0
LONG TERM NOTES PAYABLE	0
COMMERCIAL PAPER OBLIGATIONS	0
LONG TERM DEBT CURRENT PORT	500
PREFERRED STOCK CURRENT	0
CAPITAL LEASE OBLIGATIONS	2700
LEASES CURRENT	0
OTHER ITEMS CAPITAL AND LIAB	2,818,100
TOT CAPITALIZATION AND LIAB	6,612,300
GROSS OPERATING REVENUE	5,053,600
INCOME TAX EXPENSE	118,900
OTHER OPERATING EXPENSES	4,544,200
TOTAL OPERATING EXPENSES	4,544,200
OPERATING INCOME LOSS	509,400
OTHER INCOME NET	40,400
INCOME BEFORE INTEREST EXPEN	549,800
TOTAL INTEREST EXPENSE	157,600
NET INCOME	273,300
PREFERRED STOCK DIVIDENDS	0
EARNINGS AVAILABLEFOR COMM	273,300
COMMON STOCK DIVIDENDS	49,900
TOTAL INTEREST ON BONDS	0
CASH FLOW OPERATIONS	468,200
EPS PRIMARY	4.93
EPS DILUTED	4.90

End of Filing